

**NORTH DAKOTA  
RETIREMENT AND INVESTMENT OFFICE**

**STATE INVESTMENT BOARD  
GOVERNANCE MANUAL**

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## ***A. EXECUTIVE LIMITATIONS***

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**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: GENERAL EXECUTIVE CONSTRAINT**

The executive director shall not knowingly cause or allow any practice, activity, decision, or organizational circumstance which is either imprudent or in violation of commonly accepted business and professional ethics, state law, rules, and policies.

1. With respect to treatment of staff, the executive director shall not knowingly cause or allow any condition or any communication which is unfair, undignified, or disrespectful.
2. In relating to the public and other governmental entities, the executive director may not knowingly cause or allow any action which is unfair, undignified, or disrespectful. In addition, the executive director may not allow any communications from the staff which are inaccurate or fail to distinguish between fact and personal opinion.
3. Budgeting for any fiscal year or the remaining part of any fiscal year shall not knowingly deviate materially from board *Ends* priorities, or create fiscal jeopardy, or fail to be derived from the biennial planning calendar.
4. With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in *Ends* policies.
5. With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.
6. The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.
7. Compensation and benefits for staff shall not deviate from applicable state and federal law, including N.D. Administrative Code, Chapter 4-07-02.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *GENERAL EXECUTIVE CONSTRAINT***

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8. In order to protect the board from sudden loss of executive services, the executive director may not have fewer than two other executives familiar with board and chief executive issues and processes. The executive director shall not fail to inform the Deputy Executive Director and Supervisor of Fiscal Management of executive and board issues and processes.
9. The executive director will not allow a conflict of interest in the procurement of goods and services.
10. The executive director will not operate the office without a code of conduct for all RIO Employees. This code of conduct will be a part of the office Administrative Policy Manual.

**Policy Implemented:** July 23, 1995.

**Amended:** January 22, 1999; November 19, 1999.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *STAFF RELATIONS***

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With respect to treatment of staff, the executive director shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful.

Accordingly, the executive director may not:

1. Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions or violate any state or federal law.
2. Fail to provide staff with the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of Internal Audit.

**Policy Implemented:** June 23, 1995.

**Amended:** May 31, 1996.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: RELATING TO PUBLIC AND GOVERNMENT**

In relating to the public and other governmental entities, the executive director may not cause or allow any action which is unfair, undignified, or disrespectful. In addition, the executive director may not allow any communications from the staff which is inaccurate or fails to distinguish between fact and personal opinion.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *BUDGETING***

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Budgeting for any fiscal year or the remaining part of any fiscal year shall not deviate materially from board *Ends* priorities, or create fiscal jeopardy.

Accordingly, the executive director may not cause or allow budgeting which:

1. Contains too little information to enable credible projection of expenses, cash flow, and disclosure of planning assumptions.
2. Plans the expenditure in any fiscal year of more funds than are authorized by legislative appropriation.
3. Reduces the level of service, or anticipates a reduction in the level of service, of any Retirement and Investment Office program without the prior approval of the State Investment Board.

**Policy Implemented:** June 23, 1995.

**Amended:** November 2, 1997; June 26, 1998.



**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *FINANCIAL CONDITION***

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With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in *Ends* policies.

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature.
2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.
3. Initiate a transfer of appropriation authority between budget line items without board and Emergency Commission approval.
4. Allow appropriation expenditures to be made unless reported on SAMIS.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: COMMUNICATION AND COUNSEL TO THE BOARD**

With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.

Accordingly, the executive director may not:

1. Neglect to submit monitoring data required by the board (see policy on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.
2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, particularly changes in the assumptions upon which any board policy has previously been established.
3. Fail to advise the board if, in the executive director's opinion, the board is not in compliance with its own policies on *Governance Process* and *Board-Staff Relationship*, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.
4. Fail to marshal for the board as many staff and external points of view, issues, and options as needed for fully informed board choices.
5. Present information in unnecessarily complex or lengthy form.
6. Fail to provide a mechanism for official board, officer, or committee communications.
7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board.
8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, particularly *Ends* and *Executive Limitations*.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: COMMUNICATION AND COUNSEL TO THE BOARD**

9. Fail to inform the board in a timely manner of any intention to hire or dismiss the Deputy Executive Director.
10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member. Every person to whom such fiduciary responsibility is delegated is ultimately accountable to the board as to the exercise and execution of the delegated authority.

**Policy Implemented:** June 23, 1995; November 19, 1999.

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**POLICY TITLE: ASSET PROTECTION**

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The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.
2. Allow non-bonded personnel access to funds.
3. Subject plant and equipment to improper wear and tear or insufficient maintenance.
4. Unnecessarily expose the organization, its board, or staff to claims of liability.
5. Fail to protect intellectual property, information, and files from loss or significant damage.
6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.
7. Invest or hold operating capital in a manner that is inconsistent with state law or board policy.
8. Acquire, encumber, or dispose of real property.
9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
10. Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: COMPENSATION AND BENEFITS**

Compensation and benefits for staff shall not deviate from applicable state and federal law, including N.D. Administrative Code, Chapter 4-07-02.

Accordingly, the executive director may not:

1. Change the compensation and benefits of any program officer reporting directly to the SIB.
2. Promise or imply permanent or guaranteed employment.

**Policy Implemented:** June 23, 1995.

**Amended:** January 22, 1999; November 19, 1999.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *CONFLICT OF INTEREST***

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The executive director will not allow a conflict of interest in the procurement of goods and services.

"Conflict of Interest" means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

**Policy Implemented:** June 23, 1995.

**Amended:** January 22, 1999.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: CODE OF CONDUCT**

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The executive director will not operate the office without a code of conduct for all RIO employees. This code of conduct shall be a part of the office Administrative Policy Manual.

**Policy Implemented:** June 27, 1997.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: UNRELATED BUSINESS INTERESTS**

In the pursuit of personal business interests, the Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program, nor shall such activity be in violation of RIO Administrative Policy 3.47, Use of Office Facilities and Equipment.

**Policy Implemented:** August 18, 2000



## **B. *GOVERNANCE PROCESS***

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**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *GOVERNANCE COMMITMENT***

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The board, on behalf of benefit recipients and the other clients who have entrusted their funds to us, will:

- Lead the North Dakota Retirement and Investment Office (RIO) with a strategic perspective.
- Rigorously attend to its investment and oversight role.
- Continually improve its capability as a body to define values and vision.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: GOVERNING STYLE**

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The board will govern with an emphasis on:

- Outward vision rather than an internal preoccupation.
- Encouragement of diversity in viewpoints.
- Strategic leadership more than administrative detail.
- Clear distinction of board and executive director roles.
- Collective rather than individual decisions.
- Future rather than past or present.
- Proactivity rather than reactivity.

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will be an initiator of policy, not merely a reactor to staff initiatives. The board will use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.
2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (*Ends*), not on the administrative or programmatic means of attaining those effects.
3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: GOVERNING STYLE**

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4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will allow no officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.
5. Promote continual board development through orientation and mentoring of new members in the board's governance process and through periodic board discussion of process improvement. The board shall not delegate new member governance orientation to the executive director or any staff member.
  - A. A board mentor, who is knowledgeable and who will assume responsibility for assisting the new members, will be assigned by the chairperson.
  - B. The new board member should read and study Chapter 21-10, North Dakota Century Code (Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board).
  - C. The board should receive a glossary of terms used by the retirement and pension fund industry; i.e. Callan Associates Inc. - Glossary of Terms.
  - D. Newly appointed or elected board members should become familiar with the Carver Model of Governance, since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the policy manuals that have been developed by the SIB and TFFR Board.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: GOVERNING STYLE**

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E. The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.

A "new trustee book bag" containing the Retirement and Investment Office's Comprehensive Annual Financial Report (CAFR) and reference materials relating to board governance, fiduciary conduct, and investment management concepts and terminology and other appropriate materials will be made available to new trustees.

F. The executive director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.

6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the *Governance Process* and *Board-Staff Relationship* categories.

7. Observe Robert's Rules except where the board has superseded them.

**Policy Implemented:** June 23, 1995.

**Amended:** June 28, 1996; November 19, 1999, January 26, 2001.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD JOB DESCRIPTION**

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The function of the board is to make certain contributions that lead RIO toward the desired performance and ensure that it occurs. The board's specific contributions are unique to its trusteeship role and necessary for proper governance and management.

Consequently, the "products" or contributions of the board shall be:

1. The link between the SIB, its investment clients, and benefit recipients.
2. Written governing policies that, at the broadest levels, address:
  - A. *Ends:* Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which needs at what cost).
  - B. *Executive Limitations:* Constraints on executive authority which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
  - C. *Governance Process:* Specification of how the board conceives, carries out, and monitors its own task.
  - D. *Board-Executive Director Relationship:* How authority is delegated and its proper use monitored: the executive director's role, authority, and accountability.
3. The assurance of executive director performance against above policies 2a and 2b.
4. Legislation necessary to achieve the board's *Ends*.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *CHAIRPERSON'S ROLE***

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The chairperson's primary responsibility is to insure the integrity of the board's process. The chairperson is the only board member authorized to speak for the board other than in specifically authorized instances.

1. The duty of the chairperson is to see that the board operates consistent with state law, administrative rules, and its own policies.
  - A. The board agenda will be the responsibility and be coordinated by the chairperson.
  - B. Meeting discussion content will only be those issues which, according to board policy, clearly belong to the board and not the executive director, or in a board member's opinion, may deal with fiduciary responsibilities.
  - C. Deliberation will be fair, open, and thorough, but also efficient, timely, orderly, and brief.
  - D. The chairperson shall appoint a parliamentarian.
2. The authority of the chairperson consists in making decisions that fall within the topics covered by board policies on *Governance Process* and *Board-Executive Director Relationship*, except where the board specifically delegates portions of this authority to others. The chairperson is authorized to use any reasonable interpretation of the provisions in these policies.
  - A. The chairperson is empowered to chair board meetings with all the commonly accepted authority of that position (e.g., ruling, recognizing).
  - B. The chairperson has no authority to make decisions about policies created by the board within *Ends* and *Executive Limitations* policy areas. Therefore, the chairperson has no authority to supervise or direct the executive director.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *CHAIRPERSON'S ROLE***

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- C. The chairperson may represent the board to outside parties in announcing board-stated positions and in stating chairperson decisions and interpretations within the area delegated to the chairperson.
- D. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for international travel by SIB members and to keep the board informed on travel requests.

**Policy Implemented:** June 23, 1995.

**Amended:** August 17, 2001.



**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD COMMITTEE PRINCIPLES**

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Unless specifically provided by governance policy, board committees will be assigned so as to minimally interfere with the wholeness of the board's job and so as never to interfere with delegation from board to executive director. Board committees will be used sparingly.

1. Board committees are to help the board do its job, not to help the staff do its job. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. Board committees are created to advise the board, not the staff.
2. Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the executive director.
3. Board committees cannot exercise authority over staff, however, committees will make requests of staff through the executive director unless staff is assigned to the committee. Because the executive director works for the full board, he or she will not be required to obtain approval of a board committee before an executive action. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations.
4. Board committees are to avoid over-identification with the committee's assignment. Therefore, a board committee which has helped the board create policy will not be used to monitor organizational performance on that policy.
3. This policy applies only to committees which are formed by board action, whether or not the committees include non-board members. It does not apply to committees formed under the authority of the executive director.
4. The chairperson will appoint board committees authorized by the board. The operational life span of a board committee will be defined at the time of appointment.

**Policy Implemented:** June 23, 1995.

**Amended:** November 22, 1996.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *STANDING COMMITTEES***

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The board's standing committee is that which is set forth in this policy as follows:

1. Audit Committee

- A. The audit committee shall operate under the terms of a charter approved by the board.

INTRODUCTION

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *STANDING COMMITTEES***

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The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: ANNUAL BOARD PLANNING CYCLE**

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To accomplish its job outputs with a governance style consistent with board policies, the board will follow a biennial agenda which (a) completes a re-exploration of *Ends* policies annually and (b) continually improves its performance through attention to board education and to enriched input and deliberation.

1. A biennial calendar will be developed.
2. The cycle will conclude each year on the last day of June in order that administrative budgeting can be based on accomplishing a one-year segment of the most recent board long-range vision.
  - A. In the first three months of the new cycle, the board will develop its agenda for the ensuing one-year period.
  - B. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed.
3. Education, input, and deliberation will receive paramount attention in structuring the series of meetings and other board activities during the year.
  - A. To the extent feasible, the board will identify those areas of education and input needed to increase the level of wisdom and forethought it can give to subsequent choices.
  - B. A board education plan will be developed during July and August of each year.
4. The sequence derived from this process for the board planning year ending June 30 is as follows:
  - A. July: Election of officers, appoint audit committee, plan annual agenda, begin to develop board education plan, and new board member orientation.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: ANNUAL BOARD PLANNING CYCLE**

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- B. August: Investment Director review of investment policies and investment results, establish investment work plan, add investment education to education plan, and continue new board member orientation.
- C. October: Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.
- D. November: Investment Director report on investment work plan.
- E. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.
- F. February: Investment Director report on investment work plan.  
  
Evaluation of executive director.
- G. March: During first year of biennium, set budget guidelines for budget development.
- H. May: Investment Director report on investment work plan.

**Policy Implemented:** June 23, 1995; November 19, 1999.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

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The following will be the Code of Ethical Responsibility for the SIB:

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.
2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their impartiality or interfere with the proper performance of their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the board member has acquired information unavailable to the general public, through participation on the board.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

---

"Conflict of Interest" means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

4. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
5. Board members must abide by North Dakota Century Code 21-10-09, which reads: "No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a class A misdemeanor."
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. Political contributions are regulated under North Dakota Century Code 16.1-08-03 and are not restricted under this ethics policy.
8. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.
9. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT***

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on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.

10. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.

**Policy Implemented:** June 23, 1995.

**Amended:** January 22, 1999.



**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *ADMINISTRATION OF FIDUCIARY AUTHORITY***

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The board is responsible for:

1. Proper exercise of fiduciary investment authority by RIO.
2. The determination of policies.
3. The investment and disposition of property held in a fiduciary capacity.
4. The direction and review of the actions of all officers, employees, and committees in the exercise of the board's delegated fiduciary authority.

**Policy Implemented:** June 23, 1995.

**RECOMMENDATIONS REGARDING SIB/TFFR BOARD MEMBER EDUCATION**

In order for a board member to function effectively as a fiduciary of the funds they are charged with overseeing, it is important for new and existing board members to understand their role and the terminology used in executing their duties.

New board members should commit to:

1. Attend a summary orientation at the Retirement and Investment Office with the executive director and the Public Employees Retirement System's executive director, at which time they will be presented with training and board materials contained in the "new trustee book bag."
2. After four to six months, attend another orientation meeting with the RIO staff to become familiar with the roles of each staff entity.

All board members should commit to:

1. Be present for the duration of all regularly scheduled meetings and training seminars scheduled for board education.
2. Attend the yearly investment manager performance review meetings. At least three board members should be in attendance at each performance review. Attendance will be scheduled on a rotating basis.
3. Attend the annual board planning retreat.
  - A. To participate in evaluating the board's work of the previous year against the stated *Ends* policies.
  - B. To assist in preparing the work plan for the next year and developing the planning calendar.
  - C. To plan for board education during the next year's meetings.
  - D. To plan for specific board education workshops or training seminars which make use of manager and consultant expertise.
4. Take responsibility as a mentor for new members.

5. Plan to attend at least one educational seminar, symposium, workshop, or conference per year on issues of board or trustee concerns each year.
  - IFE Conferences
  - Callan College or Callan Conferences
  - NEA Trustee Conferences
  - NCTR
  - Conferences on specific board needs, i.e. alternative investments, real estate, asset allocations.
6. Become familiar with how TFFR, RIO, and the SIB fit into the legislative process.
7. The board chairperson should appoint a board member to coordinate board education activities with the executive director and staff.
  - Discussion on how board will take charge of its business.
  - How will the board connect with its members?
  - Annual review and updating of board policies.
  - Checking policies against statutes.
  - Review for new board members the board's role.

## ***C. BOARD-STAFF RELATIONSHIP***

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**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: *CHIEF EXECUTIVE ROLE***

---

The executive director, as chief executive officer, is accountable to the board acting as a body. The board will instruct the executive director through these written policies, delegating to the executive director the implementation and administration of these policies.

**Policy Implemented:** June 23, 1995.

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: DELEGATION TO THE EXECUTIVE DIRECTOR**

All board authority delegated to staff is delegated through the executive director.

1. The board will direct the executive director to achieve specified results, for specified recipients, at a specified cost through the establishment of *Ends* policies. The board will limit the latitude the executive director may exercise in practices, methods, conduct, and other "means" to the *Ends* through establishment of *Executive Limitations* policies.
2. The executive director must use reasonable judgment in the implementation or administration of the board's *Ends* and *Executive Limitations* policies; the executive director is authorized to establish further policies, make decisions, take actions, establish practices, and develop activities.
3. The board may change its *Ends* and *Executive Limitations* policies. By so doing, the board changes the latitude of choice given to the executive director. If any particular delegation is in place, the board and its members will respect and support the executive director's choices, provided that the executive director's choice is consistent with the board's fiduciary responsibility.
4. Only decisions of the board acting as a body are binding upon the executive director.
  - A. Decisions or instructions of individual board members, officers, or committees are not binding on the executive director except in rare instances when the board has specifically authorized such exercise of authority.
  - B. In the case of board members or committees requesting information, other than a public record, or assistance without board authorization, the executive director may refuse such requests that require a material amount of staff time or funds or is disruptive.

**POLICY TYPE:** BOARD-STAFF RELATIONSHIP

**POLICY TITLE:** *DELEGATION TO THE EXECUTIVE DIRECTOR*

---

5. The executive director will be responsible for the hiring, termination, and annual evaluation of all employees of the Retirement and Investment Office.

**Policy Implemented:** June 23, 1995.

**Amended:** November 22, 1996; November 19, 1999.

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: EXECUTIVE DIRECTOR JOB DESCRIPTION**

As the board's single official link to the operating organization, the executive director's performance will be considered to be synonymous with the RIO's total performance.

Consequently, the executive director's job contributions can be stated as performance in the following areas:

1. Organizational accomplishment of the provisions of board policies on *Ends*.
2. Organizational operation within the boundaries of prudence and ethics established in board policies on *Executive Limitations*.
3. Maintain accurate records of the proceedings of the SIB and TFFR Board.

**Policy Implemented:** June 23, 1995.



**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: MONITORING EXECUTIVE PERFORMANCE**

Monitoring executive performance is synonymous with monitoring organizational performance against board policies on *Ends* and on *Executive Limitations*. Any evaluation of the executive director's performance, formal or informal, may be derived only from these monitoring data.

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.
2. A given policy may be monitored in one or more of three ways:
  - A. Internal report: Disclosure of compliance information to the board from the executive director.
  - B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.
  - C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.
3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: MONITORING EXECUTIVE PERFORMANCE**

Quarterly internal reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-5 Financial Condition
- D-3 Investment Services
- D-4 Investment Performance

Annual external reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-7 Asset Protection
- D-3 Investment Services
- D-4 Investment Performance

Annual internal reports for policies:

- A-1 General Executive Constraint
- A-3 Relating to Public and Government
- A-8 Compensation and Benefits
- A-9 Conflict of Interest

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:

- A. A motion to accept the report.
- B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations*.
6. At the March board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

In making its recommendation, the committee will consider job performance as evidenced by the annual summary of the periodic monitoring reports, the Retirement and Investment Office budget status, the annual Public Pension System's Compensation Survey, the annual National Association of State Investment Officer's survey, the legislature's approved salary increases for state employees, the North Dakota market compensation for comparable positions, and other data or information considered relevant by the committee.

The committee's recommendation will be placed on the May board meeting agenda for possible action by the board. Final action by the board will be accomplished no later than the June board meeting.

**Policy Implemented:** June 23, 1995.

**Amended:** November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001.

**D. *ENDS***

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*EXHIBITS*

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**POLICY TYPE: ENDS**

**POLICY TITLE: MISSION**

---

The Retirement and Investment Office exists in order that:

- SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
- SIB clients receive investment returns consistent with their written investment policies and market variables.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

**Policy Implemented:** October 27, 1995.

**POLICY TYPE: ENDS**

**POLICY TITLE: *ORGANIZATIONAL BENEFICIARIES***

---

RIO beneficiaries (clients) are those which are statutorily defined and those which have contracted for services under statutory authority. Exhibit D-I lists the organizational beneficiaries.

**Policy Implemented:** October 27, 1995.

**POLICY TYPE: ENDS**

**POLICY TITLE: *INVESTMENT SERVICES***

---

The Retirement and Investment Office exists in order that:

1. SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.

- A. Cost effectiveness means the ratio of total RIO investment expenses to total assets under management shall not exceed the Universe Mean of the Cost Effectiveness Measurement, Inc. (CEM) Annual Survey. Investment expenses include investment office expenses, consultant fees, money manager fees, and master custodian fees.

**Policy Implemented:** October 27, 1995.

**Amended:** November 22, 1996.

**5POLICY TYPE: ENDS**

**POLICY TITLE: *INVESTMENT PERFORMANCE***

---

The Retirement and Investment Office exists in order that:

1. SIB clients receive investment returns consistent with their written investment policies and market variables.

**Policy Implemented:** October 27, 1995.



**POLICY TYPE:** ENDS

**POLICY TITLE:** INFORMATION ON AVAILABLE SERVICES

The Retirement and Investment Office exists in order that:

1. Potential SIB clients have access to information regarding the investment services provided by the SIB.

**Policy Implemented:** October 27, 1995.

**POLICY TYPE: ENDS**

**POLICY TITLE: *RETIREMENT SERVICES***

---

The Retirement and Investment Office exists in order that:

1. TFFR benefit recipients receive their retirement benefits in a cost-effective and timely manner.

- A. Retirement program performance quality will be measured against the *Ends* and retirement policies and administrative rules adopted by the Teachers' Fund for Retirement Board.

**Policy Implemented:** October 27, 1995.

**POLICY TYPE: ENDS**

**POLICY TITLE: INFORMATION ON RETIREMENT SERVICES**

The Retirement and Investment Office exists in order that:

1. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.

**Policy Implemented:** October 27, 1995.

**POLICY TYPE: ENDS**

**POLICY TITLE: *CUSTOMER SATISFACTION***

---

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.
  - A. The quality of services will be assured by direct board contact and by surveying clients and beneficiaries at least annually and promptly addressing identified client/beneficiary concerns.

**Policy Implemented:** December 1, 1995.

**ORGANIZATIONAL BENEFICIARIES**

**INVESTMENT CLIENTS:**

Statutory:

1. Teachers' Fund for Retirement Board
2. Public Employees Retirement System Board
3. Workers Compensation Executive Director
4. State Insurance Commissioner
5. National Guard Adjutant General
6. Risk Management Fund
7. Health Care Trust Fund

Contract:

1. Public Employees Retirement System Board  
(Retiree Health Credit Fund & Group Insurance Fund)
2. Job Service North Dakota Retirement Plan Administrator and Trustee
3. Bismarck Police Pension Board of Trustees
4. Bismarck City Employee Pension Plan Board of Trustees
5. State Treasurer (Veterans Post War Trust Fund)
6. North Dakota Association of Counties  
(NDACo Fund & Program Savings Fund)
7. City of Bismarck Deferred Sick Leave Fund
8. City of Fargo - FargoDome Permanent Fund

**ADMINISTRATIVE CLIENTS:**

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

<b>Governance Policy Monitoring Summary</b>			
<b>Policy</b>	<b>Method</b>	<b>Responsibility</b>	<b>Frequency</b>
<b>Ends</b>			
Investment Services	External	Investment Consultant	Annual
	Internal	Investment Officer	Quarterly
Retirement Services	External	Actuary	Annual
	Internal	Retirement Officer	Quarterly
<b>Executive Director Limitations</b>			
Executive Constraint	Internal Report	Executive Director	Annual
Staff Relations	Internal Report	Executive Director	Quarterly
	External	State Investment Board	Annual
Public Relations	Internal Report	Executive Director	Annual
Budgeting	Internal Report	Executive Director	Quarterly
	External	State Auditor	Annual
	Direct	Board Review	Biennial
Financial Condition	Internal Report	Executive Director	Quarterly
Board Communication	Direct Board Inspection	State Investment Board	Annual
Asset Protection	External	Auditor	Annual
Compensation and Benefits	Internal Report	Executive Director	Annual
Conflict of Interest	Internal	Executive Director	Annual
Code of Conduct	Internal	Executive Director	Annual
Unrelated Business Interests	Internal	Executive Director	Annual

## **E. INVESTMENTS**

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### **EXHIBITS**

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**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: FIDUCIARY DUTIES**

---

By virtue of the responsibilities assigned to the SIB by North Dakota Century Code Chapter 21-10, the members of the SIB are fiduciaries for ten statutory funds. Through contractual obligations, fiduciary responsibility extends to five additional funds. Exhibit E-I lists the funds.

A fiduciary is a person who has discretionary authority or management responsibility for assets held in trust to which another has beneficial title or interest. The fiduciary is responsible for knowing the "prudent requirements" for the investment of trust assets. Remedial actions may be assessed against fiduciaries for violations of fiduciary duty.

North Dakota state law provides broad fiduciary guidelines for the SIB members. NDCC 21-10-07 specifies that "the state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income."

Procedural prudence is a term that has evolved to describe the appropriate activities of a person (or persons) who act in a fiduciary role. Court decisions to date indicate that procedural prudence is more important in assessing fiduciary activities than actual portfolio performance. A fiduciary cannot be faulted for making the "wrong" decision provided that proper due diligence was performed.

The key to successfully discharging the SIB's fiduciary duties is the establishment of and adherence to proper due diligence procedures. While not bound by ERISA (Employee Retirement and Income Security Act of 1974), the SIB will use the procedural prudence outlined by ERISA as guidance in developing its procedures:

1. An investment policy must be established for each fund and must be in writing.



**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: FIDUCIARY DUTIES**

---

2. Plan assets must be diversified, unless under the circumstances it would be prudent not to do so.
3. Investment decisions must be made with the skill and care of a prudent expert.
4. Investment performance must be monitored.
5. Investment expenses must be controlled.
6. Prohibited transactions must be avoided.
7. An investment management consultant review shall be conducted by the Request For Proposal (RFP) process at a minimum of every two years beginning in 1999, and staff will report/review results to the board.

**Policy Implemented:** September 20, 1995.

**Amended:** May 30, 1997; January 22, 1999.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *INVESTMENT PROCESS***

---

The SIB believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues to be faced by the SIB will revolve around:

Asset allocation targets:

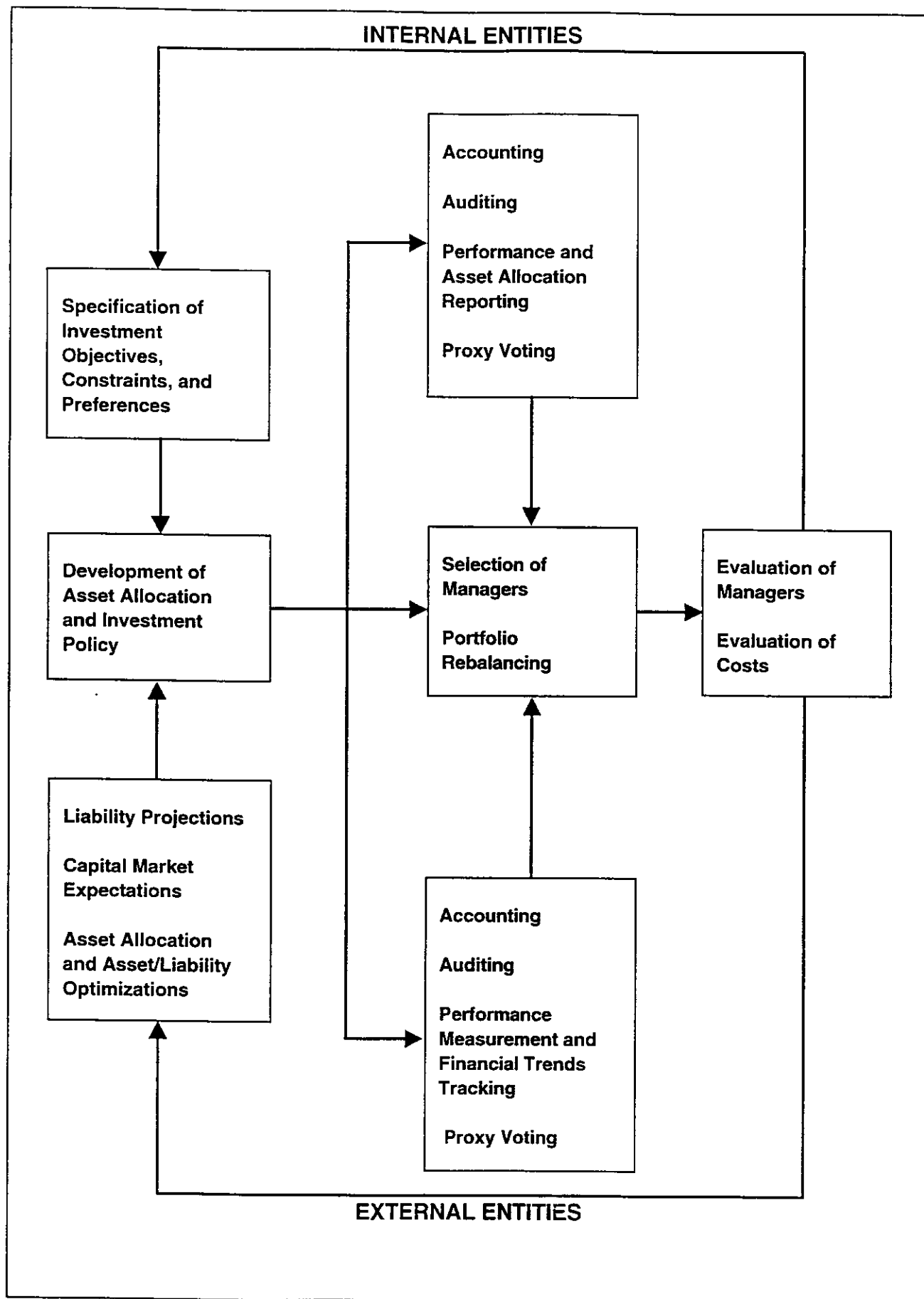
- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process, described by the diagram on the following page, involves three phases:

- Investment policy development/modification.
- Implementation/monitoring.
- Evaluation.

The first column of boxes describes the policy development phase, the middle column implementation/monitoring, and the last box on right evaluation. Activities associated with internal entities are shown along the top. Those associated with external entities are shown along the bottom. The middle shows activities that internal and external entities work on together.

**Policy Implemented:** September 20, 1995.



**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES**

---

The key responsibilities of the entities involved in the investment program are:

Fund Governing Bodies

1. Establish policy on investment goals and objectives.
2. Establish asset allocation.
3. Hire actuary.

SIB

1. Invest funds entrusted by statute and contracted entities.
2. Set policies on appropriate investments and investment practices for entrusted funds.
3. Approve asset allocation and investment policies of participating trust funds.
4. Report the investment performance of the funds to each fund's governing authority.
5. Hire and terminate money managers, custodians, and consultants.

Investment Officer and RIO Staff

1. Implement investment policies approved by the SIB.
2. Provide research and administrative support for SIB projects.
3. Recommend investment regulations appropriate for governing the investment of entrusted funds.
4. Assist fund governing bodies in developing asset allocation and investment policies.
5. Evaluate money manager adherence to investment objectives.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES**

---

6. Provide performance reports to the SIB and boards of participating funds.
7. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.
8. Develop and maintain appropriate accounting policies and systems for the funds entrusted to the SIB.

Investment Consultant

1. Measure money manager performance and monitor adherence to investment goals, objectives, and policies.
2. Conduct annual evaluation of program policies and results, and assist in development of annual work plan.
3. Assist in implementation of annual work plan.
4. Conduct asset allocation or asset/liability studies.
5. Conduct money manager searches.
6. Assist in development of investment policies and manager structure and rebalancing guidelines.
7. Extension of staff for special projects.

Actuary

1. Assist fund governing bodies in developing benefit and funding policies.
2. Measure actuarial soundness of plan.
3. Perform experience studies as requested by plan sponsor. Provide liability projections as needed.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES**

---

4. Provide liability projections as needed.
5. Conduct annual evaluation of program policies and results, and assist in development of annual work plan.
6. Assist in implementation of annual work plan.

Auditor

1. Measure, validate, and offer an opinion on agency financial statements and management.
2. Assist in developing appropriate accounting policies and procedures.
3. Bring technical competence, sound business judgement, integrity, and objectivity to the financial reporting process.

Master Custodian

1. Provide safekeeping of all securities purchased by managers on behalf of the SIB.
2. Provide global custody services.
3. Collect interest, dividend, and principal payments in a timely manner.
4. Provide for timely settlement of securities transactions.
5. Price all securities and post transactions daily.
6. Maintain short-term investment vehicles for investment of cash not invested by SIB managers. Sweep all manager accounts daily to ensure all available cash is invested.
7. Provide monthly, quarterly, and annual accounting reports for posting to RIO's general ledger.
8. Manage a securities lending program to enhance income.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES**

---

9. Provide electronic access to accounting reports.
10. Provide other services that assist with the monitoring of managers and investments.

Portfolio Managers

1. Manage portfolios as assigned by the SIB.
2. Provide liquidity, as required, in a timely and cost-efficient manner.
3. Vote proxies.
4. Provide educational assistance to board.

Exhibit E-II lists the key program entities.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT - TRUST FUNDS***

---

All funds under SIB management must have a written investment policy. Investment policy forms the cornerstone of the management of any investment program. A sound investment policy ensures that fund assets are managed in a disciplined process, based on long-term fundamental investment principles.

For the larger, more complex trust funds, consultants are used to assist in policy and asset allocation development. Their specialized skills are needed to model and analyze the many variables that go into determining a proper asset allocation.

Policy development starts with the specification of investment objectives, constraints, and preferences. Fund trustees must address a number of factors:

- What is the fund's objective(s)?
- What is the board's tolerance for risk or threshold for under-performance?
- What are the fund's liquidity needs and cash flow characteristics?
- What are the board's asset class preferences and constraints?
- What is the actuarial earnings assumption?
- What are the legal or political considerations?
- What is the investment time horizon?

Since the ultimate objective of fund investments is to provide for the payment of future capital needs, claims, or other monetary requirements, it is essential that the investment policy be developed within the context of fund liabilities or spending policy. The development of investment policy, therefore, is always unique to the circumstances of each fund.



**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT - TRUST FUNDS***

---

Complex actuarial models are used to quantify the liabilities of the pension plans and Workers Compensation Fund. Internal entities develop cash flow forecasts for the smaller funds based on past claims or anticipated expenditures.

Asset allocation optimizations are used to quantify the range of future investment outcomes. Investment consultants contribute needed expertise on capital market expectations and in identifying the risks associated with a particular asset allocation.

For some funds, the risk/return tradeoffs of alternative portfolios are not well represented by expected returns and standard deviation. More important are the expected results for required sponsor and participant contributions and funded ratios over time. Asset/liability modeling is the tool that allows the governing boards to examine and assess the tradeoffs leading to an appropriate investment policy.

The results of the optimizations are a description of the range of financial results that might realistically be expected to occur. These results provide the basis for determining an asset allocation.

In accordance with NDCC 21-10-02.1, RIO staff works with each fund's governing authority, and consultants as needed, to develop an investment policy, which includes an appropriate asset allocation, for each of the statutory funds. Contracted entities are responsible for their own policy development.

Each policy, as a minimum, will include the following information:

1. Fund characteristics and constraints.
  - An explanation as to the purpose of the portfolio and its legal structure.
  - Size of portfolio and the likelihood and amount of future contributions and disbursements.
  - Participant demographics.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT - TRUST FUNDS***

---

- Fiscal health of fund.
  - Constraints.
  - Unique circumstances.
2. Responsibilities of SIB
  3. Investment objectives.
  4. Standards of investment performance.
  5. Asset allocation policy and guidelines.
  6. Evaluation and review.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: INVESTMENT POLICY DEVELOPMENT - INVESTMENT POOLS**

---

The SIB does no in-house investment of funds. All investment activity is delegated to outside money managers. Within each asset class there are numerous manager styles (i.e. market sector specializations) that may be employed by the SIB to effect exposure to the various asset classes. Exhibit E-III lists and defines the manager styles currently in use.

SIB investment pool policy statements will define the following for each asset class:

1. Strategic objectives.
2. Performance objectives.
  - Appropriate capital market benchmarks.
  - Excess return targets, after payment of investment management fees.
  - Peer-group ranking.
  - Risk characteristics.
  - Termination factors.
3. Portfolio constraints.
  - Quality of securities/portfolio (security - BAA/  
portfolio - AA).
  - Quantity held (maximum in company/industry/economic sector).
  - Other specific restrictions if applicable (ADRs, 144A securities, prohibited transactions, etc.).
4. Investment structure.
  - Percent of assets per manager style.
  - Ranges for rebalancing.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT - INVESTMENT POOLS***

---

5. Control procedures.

- Duties and responsibilities of the SIB.
- Duties and responsibilities of money managers.
- Reporting requirements.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: MONITORING**

---

The SIB will ensure that appropriate monitoring mechanisms are in place at all times. The three basic mechanisms are:

- Accounting
- Auditing
- Performance Measurement

The primary objective of these functions is to provide useful information to decision makers (fiduciaries and legislators). These monitoring functions are needed to keep track of assets and manager activity and to control the asset mix. Different aspects of these activities will be conducted internally by RIO staff and externally by the master custodian, auditors, and investment consultants.

Accounting

The master custodian will provide RIO staff with such accounting detail and at such frequency as the staff deems necessary to fulfill the SIB's reporting requirements.

From this information, RIO accounting staff will generate monthly and annual financial statements for each of the trust funds managed by the SIB.

Auditing

The North Dakota State Auditor is responsible for the external audit of RIO. They may assign this responsibility to an outside firm which they select by way of the RFP process. This firm conducts an extensive financial and management audit for each fiscal year. The audited financial statements are filed with the Legislative Audit and Fiscal Review Committee.

RIO has a dedicated internal audit function that reports to the SIB Audit Committee. The internal audit function encompasses both the investment and retirement divisions of RIO. The primary responsibilities of investment auditing will include testing interest and dividend payments to ensure earnings are properly received; determine compliance with SIB policy, state law, and applicable federal laws and regulations; test compliance of investment managers with proxy voting responsibilities; and review security transaction costs.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: MONITORING**

---

Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers. Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).

RIO staff will use appropriate sources to compile monthly performance reports for each of the funds under the SIB that show recent performance and asset mix.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: PROXY VOTING**

---

STATEMENT OF POLICY

It shall be the policy of the State Investment Board (SIB) to vote all proxies appurtenant to shares held in the various plans administered by the Board, and to vote said shares in a manner that best serves the system's interests. Specifically, all shares are to be voted with the interest of preserving or enhancing share value. The Board endorses the Department of Labor opinion that proxies have economic power which shareholders are obligated to exercise to improve corporate performance. The Board further recognized that proxy issues are frequently complex, requiring expert guidance; accordingly, it has adopted procedures that employ such experts.

The objectives of these policies are as follows:

1. Exercise the value empowered in proxies.
2. Maintain or improve share value for the exclusive benefit of the participants.
3. Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.

PROCEDURES

DISTINCTION OF RESPONSIBILITIES

Master Custodian

The system's master custodian shall be responsible for timely receipt and distribution of proxy ballots to the appropriate investment management institutions.

Managers

The managers shall be responsible for promptly voting all proxies pursuant to the Board's policies, and in keeping with the managers' best judgements.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: PROXY VOTING**

---

Staff

Staff, in concert with the master custodian and the managers, shall be responsible for monitoring the receipt and voting of all proxies.

Board

The Board shall administer and enforce its policies. This administration and enforcement requires reporting from responsible persons, as discussed in the following.

REPORTING

Master Custodian

The master custodian shall report monthly in writing on all pertinent proxy issues, including (1) receipt of proxy material; (2) nature of issues; (3) due date; (4) names of managers and dates forwarded; and (5) deficiency reports covering proxies that should have been received but were not.

Managers

Managers shall report quarterly in writing on how proxies have been voted, with explanations given whenever the Board's guidelines have not been followed.

Staff

Internal audit staff shall report annually on the efficiency of the process, the portion of total proxies that have actually been voted, and compliance with Board directives.



**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: PROXY VOTING**

---

GUIDELINES

The Board believes that good corporate investment decisions require good corporate governance, and that social responsibilities cannot be ignored in these decision processes. Accordingly, the practice of faithfully voting with management will not be tolerated, nor will the "Wall Street Rule" which advocates the sale of shares if there is disagreement with management.

In keeping with the Board's philosophy, the managers are encouraged to vote for proposals that increase or enhance the following, and against those that decrease or diminish the same:

- Health of the population
- Environmental conditions
- Management and Board accountability
- Abolition of management entrenchment
- Control of executive compensation
- Shareholder rights and ownership
- Fair labor practices

Guidelines may be altered periodically by the Board as situations warrant.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: IMPLEMENTATION - INVESTMENT MANAGER SELECTION**

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The SIB hires investment managers with the intention of maintaining long-standing relationships. Care is taken to select managers for defined roles based on their strengths in designated areas. The hiring process is done in accordance with all applicable state and federal laws.

The selection process is a team effort involving the investment consultants, SIB members, and RIO staff. A consultant is invaluable in this activity due to the large volume of data that needs to be collected, verified, and summarized. Also, their ongoing dialogue with money management firms provides useful qualitative input.

Money managers must meet the following minimum selection criteria for inclusion in a manager search:

- Must be a registered investment adviser, bank, insurance company, or investment company (mutual fund). Should provide ADV Part II (registered investment adviser) prospectus (investment company) or comparable information (bank or insurance company).
- Provide at least five years of actual quarterly performance data that is time weighted, a representative composite of accounts, and meets AIMR standards.
- Provide information that illustrates the key investment personnel have been together for at least five years and the capabilities of the firm can handle the current level of investment activity.
- Able to articulate the firm's investment strategies and philosophy in a manner understandable by the Board, and provide a statement that the strategy has been followed for at least five years.
- Disclose any pending or past litigation or censure.
- Be willing to acknowledge their fiduciary status in writing (mutual funds are exempted from this requirement).

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: IMPLEMENTATION - INVESTMENT MANAGER SELECTION**

---

The following steps will be followed in the selection process:

- Develop a profile of the type of manager needed. This is based on the investment goals and asset allocations. Included in the profile are such things as: investment style, five- and ten-year performance numbers, number of clients (in particular public funds), professional staff, assets under management, clients lost/gained over past year, and fees.
- Consultant uses the profile to screen their data base for managers that meet SIB criteria.
- Consultant reduces the group to the top 10-15 candidates and prepares a summary report. The report will contain pertinent data on each of the candidates.
- The SIB/committee reviews the report with the consultant and narrows the field to about five finalists.
- Interviews are conducted with each of the finalists in Bismarck. All are required to bring the potential portfolio manager to the interview. Particular attention is paid to gaining an understanding of the investment process and determining the manager's compatibility with the SIB's guidelines and objectives.
- When appropriate, the list of finalists is narrowed to two or three, and on-site visits are made by staff and board members to the candidates' home offices.
- RIO staff, with the help of the consultant and under committee direction, prepare a final report and recommendation for the SIB.
- Manager(s) selected by the SIB are notified immediately by RIO staff. Unsuccessful candidates are notified by consultant.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE:** *IMPLEMENTATION - INVESTMENT MANAGER SELECTION*

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- Investment management contracts are reviewed and finalized, sent to the Attorney General for approval, and executed.
- Accounts are set up at the master custodian and on the internal general ledger.
- Consultant is notified when to begin the measurement of the investment performance of the manager(s).

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: IMPLEMENTATION - PORTFOLIO REBALANCING**

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Portfolio Rebalancing

The need to rebalance the portfolio can arise due to a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs due to rebalancing, RIO works with the investment consultants to determine appropriate ranges around the target mix (which are specified in the policy statement). Rigidly adhered to, such a policy is a valuable risk control tool. By maintaining asset mix within reasonably tight ranges, the SIB avoids making unintentional "bets" in the asset mix and avoids market-timing decisions.

All of the funds the SIB oversees have an asset allocation with minimum and maximum limits assigned. RIO's rebalancing policy requires the asset mix to be determined at the end of each month. At the end of each quarter, all portfolios deviating from the target beyond the acceptable limits are rebalanced to target.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: EVALUATION**

---

The SIB will follow an annual evaluation cycle for the investment program to ensure systematic review of investment policies and performance results and the development and implementation of corrective action plans. Evaluation of the program seeks to answer such questions as:

- Are all investment goals being met?
- What has worked and what has not?
- Have changes occurred in the capital markets, plan design, or board philosophy to warrant changes in investment policy?
- Are money managers meeting our expectations?
- Is continued confidence in the money managers warranted?
- Are accounting practices sound and fair to participating funds?
- Is service delivered in the most cost-effective manner?

The SIB's consultants play a key role in helping to answer some of these questions. The external auditor's report provides insight on accounting practices and cost effectiveness.

Evaluation of Money Managers

Achievement of the SIB's performance goals hinges on the success of the investment strategies and money managers it employs. Evaluation of each money manager must consider the following:

- Has the manager achieved the SIB's performance objectives?
- Has the firm adhered to the investment philosophy for which it was hired?
- Have there been any organizational or personnel changes that may negatively affect future performance?
- Are areas of concern being adequately addressed?

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: EVALUATION**

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- Can the manager perform well in the future, regardless of whether extraordinary events, long-term performance, and/or short-term performance argue for termination?

These criteria are assessed by quantitative and qualitative means:

- Analyses provided by the investment consultant.
- Annual meetings with each manager in Bismarck to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.

Longer periods of time are better than shorter time periods when assessing a manager's performance. Ideally, performance should be assessed over a market cycle. Market cycles have varying lengths but have historically averaged 5-7 years. The SIB will use a minimum five-year period to evaluate manager performance against long-term performance standards. Long-term performance standards will be a market index that the manager has previously agreed to be measured against.

Shorter-term performance standards will also be established for each money manager. These standards will incorporate a minimum three-year measurement period and measure the manager against a previously agreed-upon peer group or style market index.

Long-term performance standards, short-term performance standards, extraordinary events, and termination factors will be incorporated in the written asset class investment policies.

Evaluation of Program Costs

Costs will be broken out by internal administration, investment consultants, master custodian, and external manager fees. Reports will detail this information by investment pool, managers, and by fund.

These costs will be compared to other funds on an annual basis. The most reliable source of comparison currently available is the cost survey prepared by the Canadian consulting firm Cost Effectiveness Measurement, Inc. The information contained in this survey is not available anywhere else. Staff is encouraged to identify other cost-comparison sources.

**Policy Implemented:** September 20, 1995.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *PENSION TRUST ASSET ALLOCATION POLICIES***

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The following are the asset allocations for the Pension Trust and will be used to place assets with investment managers and portfolio rebalancing:

DOMESTIC LARGE CAP EQUITY (30.1% of the total trust)

60% enhanced index, 15% structured growth, 15% structured value and 10% core index.

DOMESTIC SMALL CAP EQUITY (9.9% of the total trust)

100% manager of managers

INTERNATIONAL EQUITY (14.7%)

60% large cap core active, 10% large cap concentrated, 10% large cap index, 10% small cap value, 10% small cap growth

INTERNATIONAL EMERGING MARKETS (4.8%)

100% emerging markets fund

DOMESTIC FIXED INCOME (16.7%)

20% active core bonds, 10% convertible bonds, 10% BBB average quality bonds, 25% passively managed bonds, 35% timberland

HIGH YIELD BONDS (5.8%)

100% active management

INTERNATIONAL FIXED INCOME (5.0)

100% active management (core)

REAL ESTATE (6.8%)

100% commingled real estate funds.



**POLICY TYPE:** INVESTMENTS

**POLICY TITLE:** *PENSION TRUST ASSET ALLOCATION POLICIES*

---

PRIVATE EQUITY (4.8%)

CASH (1.5%)

100% in custodial bank short term investment fund (STIF).

**Policy Implemented:** September 20, 1995.

**Amended:** July 28, 2000, December 10, 2004.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *INSURANCE TRUST ASSET ALLOCATION POLICIES***

---

The following are the asset allocations for the Insurance Trust and will be used to place assets with investment managers and portfolio rebalancing:

DOMESTIC LARGE CAP EQUITY (10.7% of the total trust)

60% enhanced index 15% structured growth, 15% structured value and 10% core index.

DOMESTIC SMALL CAP EQUITY (5.3% of the total trust)

100% manager of managers

CONVERTIBLE BONDS (6.1% of total trust)

100% active core

INTERNATIONAL EQUITY (5.1% of the total trust)

80% large cap core active, 10% small cap value, 10% small cap growth

DOMESTIC FIXED INCOME (43.4% of the total trust)

50% passively managed bonds, 25% active core bonds, 25% BBB average quality bonds

TIPS (20.9%)

100% Treasury Inflation Protected Securities

REAL ESTATE (5.7%)

100% commingled real estate funds

CASH (2.9% of the total trust)

100% in enhanced money market demand account.

**Policy Implemented:** September 20, 1995.

**Amended:** November 2, 1997; January 22, 1999, August 18, 2000, December 10, 2004.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW**

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The North Dakota State Investment Board (SIB) recognizes the inherent importance of assessing an investment manager because of performance. Thus, the following process of evaluation includes quantitative *and* qualitative input. This procedure is structured to assist the SIB in recognizing potentially distressed investment managers, initiating a formal review process, and providing guidelines for termination if necessary. Note: The "Manager Review" terminology or concept is not meant to cause the manager to make substantive changes in investment philosophy, style, or strategies. Rather, it is intended to define a period of close scrutiny of the manager's activities, circumstances, and investment results.

**Factors which may result in a Manager Review:**

Significant changes in organizational structure

Significant changes in investment philosophy

Significant deviation in portfolio management from stated philosophy (style drift)

Substandard investment performance

Diminished confidence in manager

**Manager Review Procedures:**

Information is submitted to, or generated by, the Board which initiates consideration of a Manager Review.

If warranted, the Board takes action to initiate a Manager Review.

Based on the situation and with input from the Investment Director, the SIB suggests appropriate action to facilitate the Review. Action may include telephone conferencing, local or on-site visits with manager, investigation by consultants, appearance of manager before a select committee of the SIB, or appearance of the manager before the SIB.

Investment Director initiates investigation of situation based on direction from SIB.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *PERFORMANCE RELATED INVESTMENT MANAGER REVIEW***

---

The Investment Director reports findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

Remove manager from Review status

Suggest additional action to facilitate Manager Review

Relieve manager of duties

In the case where continued investigation is warranted, the Investment Director will report new information and/or recommendations to the SIB as appropriate. It will be considered the responsibility of the Investment Director to maintain awareness and consideration of the Review until the situation is resolved.

It is important to recognize that situations occasionally arise of such a serious nature that a Manager Review process must be immediately initiated. In such cases, the Investment Director is granted the authority to place an investment manager under Review, including the freezing of assets if necessary, and report on such action at the next meeting of the State Investment Board.

In every case, the Investment Director is responsible for documenting the Manager Review process including recognition of:

Reason of Manager Review

Action taken to investigate the situation

Report on results of investigation

Report on resultant action taken by SIB

Notification of investigation and conclusions to manager and consultants

A complete record of Manager Review activities and history shall be maintained at the ND Retirement and Investment Office.

**Policy Implemented:** June 27, 1997.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: BANK OF NORTH DAKOTA MATCH LOAN PROGRAM**

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The State Investment Board has committed \$40 million (\$25 million from the Pension Trust and \$15 million from the Insurance Trust) to the Bank of North Dakota Match Loan Program. The purpose of the program is to encourage and attract financially strong companies to North Dakota. The program is targeted to manufacturing, processing and value-added industries.

The SIB provides capital to the program by purchasing Certificates of Deposit (CD's) from the Bank of North Dakota. The CD's are guaranteed by the state, typically have seven to fifteen year maturities and pay interest pegged to US Treasury notes.

The source of funding for CD's shall be determined by the Investment Director; that funding to be from the most appropriate source consistent with liquidity and relative yield and return objectives and constraints.

**Policy Implemented:** April 24, 1998.

# INVESTMENT PERFORMANCE SUMMARY

## JUNE 30, 2004

			Rates of Return (net of fees)						
	Market Value	% Of Pool	For Fiscal Year Ended 6/30					Annualized	
			2004	2003	2002	2001	2000	3 Years	5 Years
PENSION POOL PARTICIPANTS									
Teachers' Fund for Retirement	\$1,361,531,889	49.0%	19.30%	2.28%	-8.88%	-7.00%	11.63%	3.60%	2.91%
Public Employees Retirement System	1,305,721,372	47.0%	16.66%	5.46%	-6.83%	-3.95%	9.34%	4.66%	3.78%
Bismarck City Employee Pension Fund	26,372,319	0.9%	14.85%	6.14%	-6.37%	-1.99%	8.04%	4.51%	3.86%
Bismarck City Police Pension Fund	12,817,920	0.5%	15.99%	5.32%	-7.25%	-3.18%	8.74%	4.25%	3.59%
Job Service of North Dakota	73,302,237	2.6%	12.57%	5.70%	-7.00%	-3.05%	6.85%	3.43%	2.77%
Subtotal Pension Pool Participants	2,779,745,737	100.0%							
INSURANCE POOL PARTICIPANTS									
Workforce Safety & Insurance Fund	1,078,872,594	93.5%	9.62%	8.96%	-1.68%	1.38%	12.22%	5.50%	5.97%
State Fire and Tornado Fund	19,620,476	1.7%	7.25%	7.25%	-2.24%	0.38%	11.65%	3.99%	4.74%
State Bonding Fund	3,775,210	0.3%	7.52%	7.52%	-2.74%	0.43%	11.60%	3.99%	4.73%
Petroleum Tank Release Fund	8,963,984	0.8%	7.05%	7.05%	-2.41%	-0.81%	13.13%	3.80%	4.65%
Insurance Regulatory Trust Fund	2,691,453	0.2%	6.74%	6.74%	-1.92%	0.60%	11.71%	3.77%	4.66%
Health Care Trust Fund	25,498,696	2.2%	2.91%	-0.95%	-2.24%	*	*	*	*
State Risk Management Fund	2,970,211	0.3%	8.09%	8.86%	-2.56%	0.33%	2.58%	4.66%	3.37%
State Risk Management Workers Comp	2,680,638	0.2%	*	*	*	*	*	*	*
Veterans Cemetery Trust Fund	71,125	0.0%	1.20%	1.57%	2.41%	5.85%	6.05%	1.73%	3.39%
Veterans Post War Trust Fund	1,342,638	0.1%	20.47%	-0.46%	-16.82%	-9.82%	2.94%	-0.08%	-1.53%
ND Assoc. of Counties (NDACo) Fund	306,985	0.0%	12.43%	6.76%	-4.69%	-2.37%	12.79%	4.59%	*
NDACo Program Savings Fund	325,990	0.0%	12.42%	6.75%	-4.57%	-1.97%	12.36%	4.62%	*
City of Bismarck Deferred Sick Leave	661,165	0.1%	8.91%	8.77%	-1.16%	1.85%	*	5.40%	*
PERS Group Insurance	286,527	0.0%	1.20%	1.57%	2.41%	5.85%	*	1.73%	*
City of Fargo FargoDome Permanent Fund	5,867,700	0.5%	12.38%	*	*	*	*	*	*
Subtotal Insurance Pool Participants	1,153,935,392	100.0%							
INDIVIDUAL INVESTMENT ACCOUNT									
Retiree Health Insurance Credit Fund	29,855,161	100.0%	15.24%	3.39%	-7.33%	-7.65%	9.16%	3.36%	2.17%
TOTAL	\$3,963,536,290								
BENCHMARKS									
S&P 500			19.11%	0.24%	-17.99%	-14.83%	7.24%	-0.70%	-2.21%
Lehman Brothers Aggregate			0.32%	10.39%	8.63%	11.22%	4.57%	6.35%	6.95%
90 Day T-Bills			0.98%	1.52%	2.63%	5.88%	5.53%	1.71%	3.29%
Callan Public Plan Sponsors Database (Median)			14.96%	4.08%	-5.28%	-3.62%	10.04%	4.26%	3.75%

\* These funds do not have the specified years of history under SIB management.

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment results.

## State Investment Board (SIB) Members 2004-2005:

<b>Position</b>	<b>Incumbent</b>	<b>Designation</b>	<b>Term Expiration</b>
Lt. Governor	Jack Dalrymple	Ex officio	12/31/08
State Treasurer	Kelly Schmidt	Ex officio	12/31/08
State Insurance Commissioner	Jim Poolman	Ex officio	12/31/08
Commissioner University & School Lands	Gary Preszler	Appointed	N/A
Executive Director Workforce Safety & Insurance	Charles "Sandy" Blunt	Appointed	N/A
Trustee, TFFR	Clarence Corneil	Appointed by TFFR Board	6/30/07
Trustee, TFFR	Paul Lofthus	Appointed by TFFR Board	6/30/06
Trustee, TFFR	Mark Sanford	Appointed by TFFR Board	6/30/05
Trustee, PERS	David Gunkel	Appointed by PERS Board	6/30/09
Trustee, PERS	Howard Sage	Appointed by PERS Board	6/30/08
Trustee, PERS	Ron Leingang	Appointed by PERS Board	6/30/09

## Retirement and Investment Office (RIO) Staff:

<b>Position</b>	<b>Incumbent</b>	<b>Education/Experience</b>
Executive Director Investment Director	Steve Cochrane, CFA	Master of Business Administration, University of Florida, Bachelor of Science in Business Administration, University of Florida, Chartered Financial Analyst. Employed by RIO in current position since January 1997.
Fiscal and Investment Officer	Connie Flanagan	Bachelor of Science in Accounting, University of Mary; employed by RIO since March 1992; current position since December 1997.

External

<b>Function</b>	<b>Firm</b>	<b>Date Hired</b>
Investment Consultant	Callan Associates Inc. Chicago, Illinois	4/84
Actuary (TFFR)	Gabriel, Roeder & Smith Dallas, Texas	7/91
Auditor	Brady, Martz and Associates, P.C. Bismarck, North Dakota (through State Auditor's Office)	4/97
Master Custodian Global Custodian	The Northern Trust Company	12/83



**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
PENSION POOL PARTICIPANTS  
FOR PERIODS ENDED JUNE 30, 2004**

	Style	Date Initiated	Market Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Los Angeles Capital Management	Structured Growth	08/2003	\$ 124,252,549	*	*	*
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	151,404,350	18.80%	0.07%	*
LSV Asset Management	Structured Value	06/1998	130,618,542	29.86%	9.66%	8.77%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	168,557,554	19.24%	-0.05%	*
State Street Global Advisors	S&P 500 Index	06/1987	85,342,145	19.11%	-0.65%	-2.15%
Strong Capital Management, Inc.	Enhanced S&P 500	08/2000	31,925,089	21.41%	0.20%	*
Westridge Capital Management, Inc.	Enhanced S&P 500	08/2000	158,950,399	19.64%	-0.04%	*
TOTAL DOMESTIC LARGE CAP EQUITY			851,050,628	20.66%	0.33%	-1.93%
Standard & Poor's 500 Index				19.11%	-0.70%	-2.20%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	284,668,335	34.11%	6.58%	*
TOTAL DOMESTIC SMALL CAP EQUITY			284,668,335	34.11%	6.59%	7.63%
Russell 2000 Index				33.37%	6.24%	6.63%
INTERNATIONAL EQUITY:						
Bank of Ireland Asset Management	Concentrated Core	03/2002	42,443,097	24.34%	*	*
Capital Guardian Trust Company	Core	03/1992	210,698,235	25.83%	-0.72%	2.09%
Lazard Asset Management	Small Cap Value	03/2002	45,532,908	45.12%	*	*
State Street Global Advisors	Core	03/1987	85,482,479	27.74%	0.70%	-0.55%
Wellington Trust Company, NA	Small Cap Growth	03/2002	44,281,417	43.17%	*	*
TOTAL INTERNATIONAL EQUITY			428,438,136	29.70%	2.50%	2.36%
MSCI EAFE 50% Hedged Index				25.74%	-1.60%	-1.35%
EMERGING MARKETS EQUITY:						
Capital Guardian Trust Company	Core	08/1996	128,748,906	28.63%	9.61%	3.44%
MSCI Emerging Markets Free Index				33.51%	13.10%	3.27%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	LB G/C Index	01/1988	91,477,539	-0.96%	6.94%	7.10%
Bank of North Dakota - CDs	Cert. of Deposit	02/1994	21,116,603	6.27%	5.97%	5.93%
WestLB Asset Management	Active Duration	02/1986	57,606,740	-0.01%	5.40%	6.70%
RMK Timberland Group	Timberland	06/2001	102,101,086	11.42%	14.57%	*
Strong Capital Management, Inc.	Baa Average	11/1998	55,757,141	1.52%	6.53%	7.50%
Trust Company of the West	Convertibles	06/1999	59,241,784	17.15%	0.95%	4.33%
Western Asset Management Co.	Core Bonds	02/1986	58,695,299	2.19%	8.22%	8.60%
TOTAL DOMESTIC FIXED INCOME			445,996,192	5.45%	6.66%	7.61%
Lehman Brothers Aggregate Index				0.32%	6.36%	6.95%
HIGH YIELD FIXED INCOME:						
Loomis Sayles	High Yield	04/2004	79,457,333	*	*	*
Sutter/Wells Capital	High Yield	04/2004	80,929,103	*	*	*
TOTAL HIGH YIELD FIXED INCOME			160,386,436	7.94%	6.93%	3.03%
Lehman Brothers High Yield Index				10.32%	9.30%	5.06%
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	63,765,990	8.30%	14.64%	6.88%
Brandywine Asset Management	Core Non-U.S.	05/2003	66,111,172	10.09%	*	*
TOTAL INTERNATIONAL FIXED INCOME			129,877,162	9.22%	14.85%	6.99%
Salomon Brothers Non-US Gov't Bond Index				7.60%	13.66%	6.84%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
PENSION POOL PARTICIPANTS (CONTINUED)  
FOR PERIODS ENDED JUNE 30, 2004**

		Date Initiated	Market Value	Annualized Rates of Return	
	Style			1 Year	3 Years
REAL ESTATE:					
Heitman/JMB Institutional Advisory Corp.	Core Commingled	12/1987	31,472	1.45%	-5.92%
INVESCO Realty Advisors	Direct Equity	08/1997	82,519,633	6.73%	5.80%
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	89,105,933	11.11%	7.64%
TOTAL REAL ESTATE			171,657,038	8.86%	6.69%
NCREIF Classic Index				10.82%	8.40%
PRIVATE EQUITY					
Adams Street Partners (I.V.C.F. II)	Diversified	03/1989	213,363	8.26%	-10.68%
Adams Street Partners (I.V.C.F. III)	Diversified	01/1993	1,029,644	28.91%	19.98%
Adams Street Partners (1998 Fund)	Diversified	01/1998	3,309,545	9.41%	-7.52%
Adams Street Partners (1999 Fund)	Diversified	01/1999	5,522,903	14.67%	-9.09%
Adams Street Partners (2000 Fund)	Diversified	10/1999	9,171,285	11.19%	-6.65%
Adams Street Partners (2001 Fund)	Diversified	12/2000	4,233,167	6.64%	-2.21%
Adams Street Partners (2002 Fund)	Diversified	03/2002	1,970,080	14.42%	*
Adams Street Partners (2003 Fund)	Diversified	04/2003	330,720	-4.64%	*
Adams Street Partners (1999 Non-U.S. Fund)	Diversified	01/1999	2,787,485	21.08%	8.13%
Adams Street Partners (2000 Non-U.S. Fund)	Diversified	01/2000	3,481,055	15.38%	5.70%
Adams Street Partners (2001 Non-U.S. Fund)	Diversified	02/2001	2,176,357	16.63%	3.39%
Adams Street Partners (2002 Non-U.S. Fund)	Diversified	05/2002	3,269,458	18.71%	*
Adams Street Partners (2003 Non-U.S. Fund)	Diversified	04/2003	774,779	-3.92%	*
Adams Street Partners (2004 Non-U.S. Fund)	Diversified	04/2004	149,946	*	*
Adams Street Partners (B.V.C.F. IV)	Diversified	05/1999	15,833,730	21.17%	-9.85%
Coral Partners, Inc. (V.P. II)	Direct	06/1990	119,302	14.13%	-16.27%
Coral Partners, Inc. (Fund V)	Direct	03/1998	15,518,922	-31.07%	-34.06%
Coral Partners, Inc. (Supplemental Fund V)	Direct	08/2001	1,389,288	30.44%	*
Coral Partners, Inc. (Fund VI)	Direct	07/2002	7,873,889	-21.72%	*
Hearthstone Homebuilding Investors (MSII)	Home Building	10/1999	899,981	29.05%	20.46%
Hearthstone Homebuilding Investors (MSIII)	Home Building	09/2003	13,584,057	*	*
Invest America (Lewis and Clark)	Direct	02/2002	3,243,822	-7.73%	*
Matlin Patterson Global Opportunities Fund	Distressed Debt	07/2002	22,654,631	13.00%	*
TOTAL PRIVATE EQUITY			119,537,409	3.04%	-13.22%
CASH EQUIVALENTS:					
The Northern Trust Company	STIF/STEP	07/1994	59,385,495	1.49%	1.99%
90 Day T-Bills				0.98%	1.71%
TOTAL PENSION POOL			\$ 2,779,745,737	18.13%	4.49%
Policy Target				16.53%	3.75%

\* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.

The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards. Returns are shown before the effect of investment management fees, except for real estate and alternative investments, which are shown net of fees.

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
INSURANCE POOL PARTICIPANTS  
FOR PERIODS ENDED JUNE 30, 2004**

		Date Initiated	Market Value	Annualized Rates of Return		
	Style			1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Los Angeles Capital Management	Structured Growth	08/2003	\$ 18,832,766	*	*	*
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	39,117,044	*	*	*
LSV Asset Management	Structured Value	06/1998	19,075,881	30.96%	9.78%	8.83%
State Street Global Advisors	S&P 500 Index	10/1996	11,474,238	19.06%	-0.70%	-2.20%
Westridge Capital Management, Inc.	Enhanced S&P 500	04/2004	38,062,681	*	*	*
TOTAL DOMESTIC LARGE CAP EQUITY			126,562,610	21.64%	0.31%	-1.19%
Standard & Poor's 500 Index				19.11%	-0.70%	-2.20%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	62,424,927	33.80%	6.32%	*
TOTAL DOMESTIC SMALL CAP EQUITY			62,424,927	33.80%	6.35%	6.81%
Russell 2000 Index				33.37%	6.24%	6.63%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	45,989,201	26.26%	0.21%	1.08%
Lazard Asset Management	Small Cap Value	11/2002	6,320,196	44.62%	*	*
The Vanguard Group	Small Cap Growth	06/2003	6,047,758	46.15%	*	*
TOTAL INTERNATIONAL EQUITY			58,357,155	29.84%	1.57%	1.91%
MSCI EAFE 50% Hedged Index **				25.74%	-1.60%	-2.34%
CONVERTIBLE BONDS:						
Trust Company of the West	Sector Rotation	07/1990	70,434,811	17.90%	1.47%	4.32%
First Boston Convertible Index				14.16%	4.89%	5.75%
DOMESTIC FIXED INCOME:						
Bank of North Dakota - CDs	Cert. of Deposit	12/1996	28,975,400	3.55%	4.12%	4.79%
Bank of North Dakota	LB G/C Index	07/1989	236,810,747	0.13%	7.16%	7.32%
Strong Capital Management, Inc.	Baa Average Quality	04/2002	101,326,626	1.33%	*	*
Western Asset Management Co.	Core Bond	07/1990	182,602,765	2.60%	7.97%	8.31%
TOTAL DOMESTIC FIXED INCOME			549,715,538	1.92%	7.77%	7.95%
Lehman Brothers Government/Credit Index				-0.72%	6.74%	7.11%
TREASURY INFLATION PROTECTED (TIPS):						
Northern Trust Global Investments	Index	05/2004	119,335,818	*	*	*
Western Asset Management Co.	Core	05/2004	121,247,269	*	*	*
TOTAL TIPS			240,583,087	*	*	*
Lehman Brothers US TIPS Index				*	*	*
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	45,857,264	1.19%	1.73%	3.40%
90 Day T-Bills				0.98%	1.71%	3.29%
TOTAL INSURANCE POOL			\$ 1,153,935,392	9.49%	5.49%	6.01%
Policy Target				7.17%	5.15%	5.32%

\* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.

\*\* Prior to September 2000, the benchmark for international equity was the MSCI EAFE Index (unhedged).

The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards. Returns are shown before the effect of investment management fees.

## **F. TFFR ENDS**

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### **EXHIBITS**

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**POLICY TYPE: TFFR ENDS**

**POLICY TITLE: *MISSION***

---

The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**POLICY TYPE: TFFR ENDS**

**POLICY TITLE: GOALS**

---

1. To provide a replacement income equal to 60 percent of the final average salary of a career employee who has 30 or more years of credited service.
2. To provide ad hoc biennial benefit increases and 2% guaranteed annual benefit increases to retired members and beneficiaries to provide income protection and assist retirees in accessing affordable health insurance.
3. To continue providing statewide preretirement planning services and benefits counseling to members.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**TFFR Amended:** August 29, 1996; March 6, 1998; September 23, 1999;  
January 25, 2001.

**POLICY TYPE:** TFFR Ends

**POLICY TITLE:** Plan Beneficiaries

---

TFFR beneficiaries are:

1. Plan Members:

- a. Active - All persons who are licensed to teach in North Dakota and who are contractually employed in teaching, supervisory, administrative, or extracurricular services:
  - Classroom Teachers
  - Superintendents, Assistant Superintendents, County Superintendents
  - Business Managers
  - Principals and Assistant Principals
  - Special Teachers
  - Superintendent of Public Instruction, Assistant Superintendents, and Supervisors of Instruction, unless transferred to NDPERS
  - Professional staff of State Board for Vocational Education and Division of Independent Study
  - Other persons or positions authorized in state statutes
- b. Annuitants - All persons who are collecting a monthly benefit:
  - Retirees
  - Disabilitants
  - Survivors/Beneficiaries
- c. Inactive members:
  - Vested
  - Nonvested

2. Employers:

- a. School Districts
  - b. State Institutions and agencies defined in state statutes
3. Other TFFR participating employers

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**Amended:** July 27, 2000; July 24, 2003.

**POLICY TYPE:** TFFR Ends

**POLICY TITLE:** Membership Data and Contributions

---

Ensure the security and accuracy of the members' permanent records and the collection of assessments/contributions from every governmental body employing a teacher.

Accordingly, the administrative means will be to:

1. Retain member documents applicable to the retirement program.
2. Safeguard TFFR database files maintained on the state's mainframe computer system.
3. Protect the confidential information contained in member files.
4. Continue the development of the image processing system as a means for storing and working with member documents.
5. Collect the assessments and contributions from the employers after the salary is earned by the member.
6. Monitor the employer reporting process including the timely filing of information, consistency of month-to-month data, and changes in the employer payment of member assessments.
7. Review the individual member data and service credit (transmitted with the payment) for accuracy.
8. Post and validate the data received from the employer to the individual accounts.
9. Mail annual statements to every member.
10. Summarize the teacher data reported and notify the employers of the year-to-date information.
11. Ensure that individuals employed as "teachers" in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the NDCC.
12. Provide publications and reporting instructions to employers on TFFR.
13. Transfer the assessments and contributions to the investment program in a timely manner.



**POLICY TYPE:** TFFR Ends

**POLICY TITLE:** Membership Data and Contributions

---

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the Board from RIO's internal auditors. The Internal Audit (IA) program is designed to review the districts on a five-year cycle.
  - Compliance for individual accounts is monitored through internal audits of staff compliance with state laws, rules, Board policy, and procedures.
- External Report
  - Disclosure of compliance to the Board by RIO's external auditors as a part of the annual audit.
  - Disclosure of compliance to members through annual statements.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**Amended:** July 18, 2002

**POLICY TYPE: TFFR ENDS**

**POLICY TITLE: *INVESTMENTS***

---

The Ends to be achieved regarding the investment of TFFR funds are outlined in the **Investment Policy Statement**.

**TFFR Board Adopted:** November 30, 1995.

**SIB Accepted:** February 23, 1996.

**TFFR Board Amended:** August 29, 1996, November 18, 1999; July 27, 2000.

**POLICY TYPE:** TFFR Ends

**POLICY TITLE:** Member Services

---

Provide direct services and public information to members of TFFR.

Accordingly, the administrative means will be to:

1. Enroll, update, maintain, and certify all member accounts.
2. Respond to member inquiries on the retirement program.
3. Provide statewide benefits counseling services to members through one-on-one sessions.
4. Make group presentations and distribute information at conferences and conventions throughout the state.
5. Coordinate and conduct preretirement and financial planning programs for members on a statewide basis.
6. Certify eligibility for TFFR benefits and purchase of service credit.
7. Calculate and process claims for refund, retirement, disability, survivor, and QDRO benefits, as well as claims for purchasing credit.
8. Allow members to use all optional forms of payment under the Level Income Plan (except Partial Lump Sum Option.)
9. Permit members to change designated beneficiaries in the event of life occurrences identified in the administrative rules.
10. Close retirement accounts of deceased teachers.
11. Develop and distribute information to the members on the retirement program and related topics through newsletters, annual reports, member handbooks, brochures, and retirement planning guides/workbooks.
12. Support a nation-wide, toll-free telephone number for members contacting the Fund.
13. Maintain a website for TFFR information to provide members with a greater variety of access methods.

**POLICY TYPE:** TFFR Ends

**POLICY TITLE:** Member Services

---

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the Board through internal audits on compliance with laws, rules, and policies.
  - Periodic presentations by staff at Board meetings.
- External Report
  - Receive annual reports from leadership of groups representing the plan's beneficiaries.
  - RIO's annual audit by independent auditor.
  - Written and oral communication with Board members from teachers regarding payment and processing of benefit claims.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**Amended:** July 27, 2000; July 24, 2003.

**POLICY TYPE:** TFFR Ends

**POLICY TITLE:** Account Claims

---

Ensure the payment of claims to members of TFFR.

Accordingly, the administrative means will be to:

1. Pay retirement benefits based on a presumed final salary for members retiring upon completion of their teaching contract and whose final salary has not been reported to TFFR.
2. Allow teachers receiving an annuity from TFFR to have payroll deductions subtracted from their monthly benefit, including, but not limited to: health, life, and other insurance premiums payable to PERS, NDRTA dues, NDEA-Retired dues, and federal and North Dakota income tax withholdings.
3. Distribute payments for benefit claims (annuities, PLSOs, refunds, and rollovers) once per month. Distributions including payments made by Electronic Funds Transfers (EFT) will be mailed on the last working day of the previous month payable on the first working day of each month.
4. Distribute special payments for benefit claims in the event of unforeseen circumstances (i.e. death, QDRO, Court Order).
5. Send new account notices and account change notices to retired members.

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the Board through internal audits on compliance with laws, rules, and policies.
  - Periodic presentations by staff at Board meetings.
- External Report
  - Disclosure of compliance to the Board through annual audit by RIO auditors.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**Amended:** July 27, 2000; July 24, 2003.

**POLICY TYPE: TFFR ENDS**

**POLICY TITLE: TRUST FUND EVALUATION/MONITORING**

---

Ensure actuarial consulting and accounting services are provided to the retirement program. The TFFR Board of Trustees will select the independent actuary for consulting and actuarial purposes and direct a contract be executed by the Deputy Executive Director.

Accordingly, the administrative means will be to:

1. Have an annual actuarial valuation (July 1 to June 30) reviewed or performed on the retirement program.
2. Have an actuarial review of TFFR's actuarial valuation performed at least every ten years by an independent actuary.
3. Have an actuarial experience study performed on TFFR every five years.
4. Have an asset liability modeling study performed on TFFR every five years.
5. Prepare financial statements in accordance with generally accepted accounting principles for defined benefit public pension plans.
6. Have an audit conducted annually in accordance with generally accepted auditing standards (as established by the AICPA) by an independent auditor.
7. Receive an unqualified opinion by the independent auditor regarding the audited financial statements.
8. Perform internal audits on the retirement program which provide the Board with reasonable assurance that TFFR is being administered in compliance with federal and state laws, administrative rules, Board policy, and established procedures.

Monitoring (Method, Responsibility, Frequency)

Internal Report

- Disclosure of compliance to the Board through periodic presentations by staff at Board meetings.

External Report

- Disclosure of compliance to the Board through annual audit and actuarial reports.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**TFFR Board Amended:** July 27, 2000.

**PLAN CHARACTERISTICS**

The Teachers' Fund for Retirement (TFFR) was established in 1913 to provide retirement income to public educators. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. The North Dakota Century Code (NDCC) Chapter 15-39.1 contains the actual language governing the Fund and is supplemented by Title 82 of the North Dakota Administrative Code.

The responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two classroom teachers or guidance counselors, a school administrator, and two retired members.

The TFFR benefits program is administered through the Retirement and Investment Office (RIO) according to this Statement of Retirement Policy.

TFFR's funds are invested under the direction of the State Investment Board (SIB) following the "Prudent Investor Rule." The investments must be invested exclusively for the benefit of the TFFR members. Four of the TFFR Board members serve as voting members on the 11-member SIB.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

**TFFR Board Amended:** July 1, 1997.

**TEACHERS' FUND FOR RETIREMENT RESPONSIBILITIES**

1. Establish policies for the administration of the TFFR programs.
2. Submit legislation, monitor the statutory responsibilities of the TFFR programs as outlined in the NDCC, and promulgate Administrative Rules.
3. Establish and monitor actuarial assumptions used to value the retirement plan and to conduct periodic valuations.
4. Establish and monitor retirement benefit and service program goals.
5. Establish and monitor policy for investment goals, objectives, and asset allocation for the Fund.

Communicate and monitor program expectations with the SIB.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.



**STATE INVESTMENT BOARD RESPONSIBILITIES**

To provide the staff and resources to carry out the *Ends* of the retirement program through RIO.

**TFFR Board Adopted:** May 25, 1995.

**SIB Accepted:** August 30, 1995.

## **G. TRUST FUND INVESTMENT GUIDELINES**

Bonding

City of Bismarck Deferred Sick Leave

City of Bismarck Employees

City of Bismarck Police

Fargodome

Fire and Tornado

Health Care Trust

Insurance Regulatory

Job Service

ND Association of Counties

PERS

PERS Group Insurance

PERS Prefunded Health

Petroleum Tank

Risk Management

Risk Management Workers Comp

Teachers' Fund for Retirement

Veterans Cemetary

Veterans Post War

Workers Compensation

# **NORTH DAKOTA STATE BONDING FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The State Bonding Fund (the Fund) was established for bonding public employees and public officials in accordance with Chapter 26.1-21 of the North Dakota Century Code (NDCC). Some fees to the Fund are collected annually in the form of claims repayments. However, the primary funding source for the Fund is investment return.

A minimum balance of \$2.5 million must be maintained at all times. If reserves drop below this statutory minimum, premiums will be assessed against all bond holders in accordance with NDCC 26.1-21-09. Such premiums will continue to be charged until the Fund balance reaches \$3.0 million. This situation must be avoided.

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead-time to prepare for a claim payment. Claims have averaged \$92,222 annually over the last four fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2003-2005 biennium, these appropriations are assumed to be \$17,500 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect the long-term nature of the Fund, but also recognize the shorter-term liquidity needs. Operating and statutory considerations shape the policies and priorities outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of \$2,500,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston Convertible Securities index, 50% Lehman Government/Corporate domestic bond index, and 10% 90-day Treasury bills.

- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

## 5. POLICY AND GUIDELINES.

The asset allocation of the State Bonding Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	15 %
Small Cap Domestic Equity	5 %
Convertible Bonds	10 %
International Equity	10 %
Fixed Income	50 %
Cash Equivalents	10 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

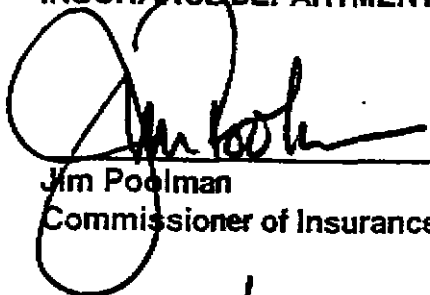
**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated in comparison with the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

**INSURANCE DEPARTMENT**



Jim Poolman  
Commissioner of Insurance

Date: 6/24/03

**STATE INVESTMENT BOARD**



Steve Cochrane  
Executive Director/Investment Director, RIO

Date: 6-27-03



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.discovernd.com/rio](http://www.discovernd.com/rio)

## Memo

RECEIVED

MAR 05 2004

NDRIO

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Commissioner of Insurance  
State of North Dakota

**To:** Ken Rood, Insurance Dept Funds  
**From:** Connie Flanagan *CF*  
**Date:** March 2, 2004  
**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed \_\_\_\_\_

Date \_\_\_\_\_

*Ken Rood*  
3/4/04

# **CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The City of Bismarck Deferred Sick Leave Account ("Fund") represents money set aside to cover the City's unfunded liability of employees' accrued sick leave. People who terminate employment with the City shall be compensated for unused sick leave from this Fund. In time, it is expected that the Fund will become depleted.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The self-liquidating feature of the Fund is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.



Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 60% Lehman Government/Corporate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the City of Bismarck Deferred Sick Leave Account is established by the City of Bismarck. Asset allocation is based upon the appraisal of projected liquidity requirements and sick leave payment demand, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	10 %
Small Cap Domestic Equity	5 %
Convertible Bonds	10 %
International Equity	10 %
Fixed Income	60 %
Cash Equivalents	5 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.


**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers hired by the SIB will be evaluated by the Board quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**CITY OF BISMARCK**

  
Chuck Klein, Director  
Department of Human Resources

Date: 6-22-99

**STATE INVESTMENT BOARD**

  
Scott Engmann  
Executive Director, RIO

Date: June 14, 1999



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

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Executive Director

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## Memo

**To:** Chuck Klein, City of Bismarck Deferred Sick Leave Fund

**From:** Connie Flanagan *cf*

**Date:** March 2, 2004

**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed

*Charles J. Klein*

Date

*3-10-04*

**Attachment A**

**Adopted by Bismarck City  
April 2, 1990**

**Adopted by the NDSIB  
August 31, 1990**

**STATEMENT OF INVESTMENT GOALS, OBJECTIVES  
AND POLICIES  
FOR THE  
BISMARCK CITY EMPLOYEE PENSION PLAN**

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## **I. INTRODUCTION**

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) administers the pension benefit plan established for the city of Bismarck public employees. The plan is administered by the Bismarck City Employee Pension Plan Board of Trustees'.

The plan is a defined benefit pension plan maintained to provide retirement benefits, disability benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the city of Bismarck Code of Ordinance (1986 revised). The plan is administered in accordance with IRS and Treasury Regulations.

The plan and benefits provided are funded by contributions from the members and members employer. The plan was established to provide benefits to members eligible to receive them in accordance with the provisions of the plan.

## **II. INVESTMENT GOAL**

The goal of the BCEPP is to provide income through various investments and members and members employer contributions, sufficient to pay benefits accrued and to provide for future benefit enhancements.

## **III. PURPOSE OF THIS STATEMENT**

The purpose of this statement is to set forth the investment goals and objectives for the BCEPP. The goals and objectives are to be used by the Bismarck City Employee Pension Plan Board of Trustees', North Dakota State Investment Board (NDSIB) and money managers for the investment of the BCEPP's assets.

## **IV. PRUDENT INVESTOR RULE AND EXCLUSIVE BENEFIT PROVISION**

The BCEPP's assets must be invested in compliance with the "Prudent Investor Rule." The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of

large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the BCEPP must be invested exclusively for the benefit of their members and beneficiaries in accordance with the Fund's investment goals and objectives.

**V. RESPONSIBILITY OF THE BISMARCK CITY EMPLOYEE PENSION PLAN BOARD OF TRUSTEES'**

- A. The Bismarck City Employee Pension Plan Board Of Trustees' has the responsibility for establishing the investment goals and objectives which are the guide to the investment of BCEPP's assets. The Bismarck City Employee Pension Plan Board of Trustees' determines the investment policies by considering the implications of a wide range of financial assumptions and investment risk.
- B. The Bismarck City Employee Pension Plan Board of Trustees' shall review these investment goals, objectives and policies at least annually.
- C. The Bismarck City Employee Pension Plan Board of Trustees' has the responsibility to approve exemptions to these Investment Goals and Objectives.
- D. The Bismarck City Employee Pension Plan Board of Trustees' has the responsibility for the development of an Asset Allocation Plan.
- E. The Bismarck City Employee Pension Plan Board of Trustees' shall receive and review reports from the NDSIBs Director of Investments quarterly.

**VI. RESPONSIBILITIES OF THE NORTH DAKOTA STATE INVESTMENT BOARD**

- A. Final authority for hiring, retaining and releasing the money managers, as recommended by the Director of Investments, shall rest with the NDSIB.
- B. The NDSIB is responsible to the Bismarck City Employee Pension Plan Board of Trustees' for carrying out the Bismarck City Employee Pension Plan Board of Trustees' Investment Goals, Objectives and Policies.
- C. The NDSIB is responsible to the Bismarck City Employee Pension Plan Board of Trustees' for carrying out the

Bismarck City Employee Pension Plan Board of Trustees'  
Asset Allocation Plan.

- D. The NDSIB must maintain a separate accounting for the BCEPP fund under their authority.
- E. The NDSIB will provide the Bismarck City Employee Pension Plan Board of Trustees' with quarterly investment reports.

#### **VII. STATEMENT OF TOTAL FUND INVESTMENT PHILOSOPHY/OBJECTIVES**

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. It is in the best interest of BCEPP and beneficiaries that objectives be established for the total fund and performance standards set for each money manager. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies. These performance objectives are as follows:

- A. Total Fund Objectives
  - 1. The long term objective of the Fund is to achieve a minimum rate of return of 4.5% in excess of the annual rate of inflation. However, the return shall be no less than the 7.25% return the actuary has determined is required to pay future benefits.
  - 2. Achieve a long term performance, consistent within acceptable risk parameters, which rank above the thirty-fifth (35th) percentile of a data base composed of other managed funds as measured by the NDSIB's investment measurement consultant.
- B. The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the Bismarck City Employee Pension Plan Board of Trustees'. See Appendix A.

#### **VIII. FIXED INCOME INVESTMENT PHILOSOPHY/OBJECTIVES**

##### **A. Domestic Fixed Income Investments Guidelines**

The responsibility for domestic fixed income securities or investment selection will lie with the domestic fixed



income manager. Those managers, however, will operate within investment guidelines which will conform to the Employee Retirement Income Security Act (ERISA) and other applicable governmental regulations and which will cover four areas: (1) diversification, (2) quality, (3) restricted transactions and (4) exemptions.

1. Diversification other than government and federal agency securities.

- a. No individual securities shall constitute more than 10% of the market value of the portfolio, or its equivalent representation in the Shearson Lehman American Express Government/Corporate Bond Index or the Shearson Lehman American Express Aggregate Bond Index.
- b. No single industry group shall constitute more than 25% of the market value of the portfolio, or its comparable representation in the previously identified index, whichever is larger.
- c. Futures and options may be used to hedge a portfolio but not to speculate. Permitted contracts are: Treasury Futures; Money Market Futures; Treasury Options; or Money Market Options.

2. Quality

- a. Commercial paper investment must be rated P-1 and/or A-1 by Moody's and Standard and Poor's respectively.
- b. The minimum credit rating for a straight bond will be Baa rating by Moody's and BBB by Standard & Poor's. On a dollar weighted basis, the quality rating of the bond portfolio must be an "A" or better.
- c. The minimum credit rating for a convertible bond will be Baa by Moody's and BB by Standard & Poor's.
- d. Financial institutions issuing Certificates of Deposit (CD's) and appearing on the Comptroller of the Currency's watch list are unacceptable.

- e. Any security downgraded below its approved quality level must be disposed of in an orderly market manner and in the best interest of the Fund.

### 3. Restrictions

- a. Conflicts of interest and transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I, ERISA, are prohibited.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. No funds shall be borrowed.
- d. No short sales or margin purchases shall be made.
- e. No tax exempt bonds shall be purchased or retained unless, on a comparable quality basis, it provides a return superior to that of a taxable bond.
- f. No private placements shall be purchased.
- g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCEPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
  - 4. The safeguards and diversity that a prudent investor would adhere to are present.

### 4. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1, 2 and 3, in writing, to the Bismarck City Employee Pension Plan Board of Trustees' for its consideration.

B. Domestic Fixed Income Performance Objectives

The objectives for the domestic fixed income investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by 2.5 percentage points.
2. Exceed the theoretical return which is provided by the Shearson Lehman American Express Government/Corporate Bond Index or the Shearson Lehman American Express Aggregate Bond Index.
3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.
4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for money managers shall be a market cycle as measured by the NDSIB's investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind a market average, or the performance of a group of money managers of similar style, then the relationship with the money manager will be closely scrutinized.

C. International Fixed Income Investment Guidelines

The responsibility for international fixed income securities or investment selection will lie with the international fixed income managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which cover three areas: (1) diversification/quality; (2) restrictions; and (3) exemptions to restrictions.

1. Diversification/Quality

- a. International fixed income investments are limited to those countries and securities utilized in the Salomon Brothers Non-U.S. Bond Index or the Salomon Brothers World Bond Index.
- b. Currency Forward contracts may be used to hedge a portfolio, but not to speculate.

2. Restrictions

- a. Conflicts of interest in transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I ERISA, are prohibited.
- b. No transactions which may threaten the tax exempt status of the retirement fund.
- c. No funds shall be borrowed.
- d. No short sales or margin purchases shall be made.
- e. No tax exempt bonds shall be purchased or retained unless, on a comparable quality basis, it provides a return superior to that of a taxable bond.
- f. No private placements shall be purchased.
- g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCEPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.

4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1 and 2, in writing, to the Bismarck City Employee Pension Plan Board of Trustees' for its consideration.

- D. International Fixed Income Performance Objectives

The objectives for the international fixed income investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by 3.5 percentage points.
2. Exceed that theoretical return which is provided by the Salomon Brothers Non-U.S. Bond Index or the Salomon Brothers World Bond Index.
3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.
4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for the money managers shall be a market cycle as measured by the NDSIB's investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind a market average, or the performance of a group of money managers with similar style, the relationship with the money manager will be closely scrutinized.

## **IX. EQUITY INVESTMENT PHILOSOPHY/OBJECTIVES**

- A. Domestic Equity Investment Guidelines

The responsibility for domestic equity investment selection shall lie with the domestic equity money managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which

will cover four areas: (1) diversification, (2) quality, (3) restricted transactions and (4) exemptions.

1. Diversification

- a. Equity investments in any one company shall be limited to no more than ten percent (10%) of the total fund assets under the money manager's supervision and no more than ten percent (10%) of the company's outstanding equity.
- b. No stock shall be bought unless it is traded on one of the major stock exchanges or the over-the-counter markets. Over-the-counter securities shall represent no more than ten percent (10%) of the fund assets managed by the money manager.
- c. S&P 500 futures and options may be utilized to hedge a portfolio, but not to speculate.

2. Quality

- a. Convertible and non-convertible preferred stock shall be rated at least "A" by Moody's and Standard and Poor's.

3. Restrictions

- a. Conflicts of interest and transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I, ERISA, are prohibited.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. No letter stock shall be purchased.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.
- f. If in any calendar quarter the turnover of equity investments exceeds thirty percent (30%) of the equity market value, the money manager will promptly submit to the NDSIB a detailed explanation of the trading activity

(For this purpose turnover shall be calculated as the ratio of the proceeds of equity sales to the market value of equities at the start of the quarter.)

g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is prohibited by BCEPP Board Resolutions. That rule is met if the following four conditions are satisfied:

1. The cost does not exceed the fair market value at the time of the purchase.
2. The investment provides a fair return commensurate with the prevailing rate.
3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

4. Exemptions to Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1, 2, and 3, in writing, to the Bismarck City Employee Pension Plan Board of Trustees' for its consideration.

B. Domestic Equity Performance Objectives

The objectives for the domestic equity investment portfolio are to achieve an average total investment return (cash income in combination with market value change) which will:

1. Exceed the annual rate of inflation by six (6) percentage points;
2. Exceed the return provided by the Standard & Poor's Composite Index;
3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.

4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for the money managers shall be a market cycle as measured by the NDSIB's investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind a market average, or the performance of a group of money managers with similar style, the relationship with the money manager will be closely scrutinized.

C. International Equity Investment Guidelines

The responsibility for international equity securities or investment selection shall lie with the international equity money managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and will cover three areas: (1) diversification/quality, (2) restricted transactions and (3) exemptions.

1. Diversification/Quality

- a. The international equity fund is limited to those countries and securities in the Morgan Stanley CIEAFE Index Fund.
- b. Currency Forward contracts may be used to hedge a portfolio, but not to speculate.

2. Restrictions

- a. Conflicts of interest in transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I, ERISA, are prohibited.
- b. No transactions shall be made which threaten the tax exempt status of the retirement fund.
- c. No letter stock shall be borrowed.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.



- f. If in any calendar quarter the turnover in equity investments exceeds thirty percent (30%) of the equity market value, the money manager will promptly submit to the NDSIB a detailed explanation of the trading activity. (For this purpose turnover shall be calculated as the ratio of the proceeds equity sale to the market value of equities at the start of the quarter.)
- g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCEPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
  - 4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exceptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1 and 2, in writing, to the Bismarck City Employee Pension Plan Board of Trustees' for its consideration.

D. International Equity Performance Objectives

The objectives for the international equity investment portfolio are to achieve an average total investment return which will:

- 1. Exceed the annual rate of inflation by seven (7) percentage points;
- 2. Exceed the return provided by the Morgan Stanley CIEAFE Index.

3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.
4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for money managers shall be a market cycle as measured by the NDSIB investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind the market averages, or the performance of a group of money managers with similar style, then the relationship with that money manager will be closely scrutinized.

## **X. REAL ESTATE INVESTMENT PHILOSOPHY/OBJECTIVES**

### **A. Real Estate Investment Guidelines**

The responsibility for real estate investment selection shall lie with the real estate managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which will cover three areas: (1) diversification, (2) restricted transactions and (3) exemptions.

#### **1. Diversification**

The investment in Real Estate shall be in an open-ended or closed-ended Real Estate Equity Fund.

#### **2. Restrictions**

- a. No private placements.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCEPP Board Resolutions. That rule is met if the following four conditions are satisfied:

1. The cost does not exceed the fair market value at the time of the purchase.
2. The investment provides a fair return commensurate with the prevailing rate.
3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to Sections 1 and 2, in writing, to the Bismarck City Employee Pension Plan Board of Trustees' for its consideration.

B. Real Estate Performance Objectives

The objectives for the real estate investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by 3.5 percentage points.
2. Exceed the median return of a Real Estate Data base as measured by the NDSIB's investment measurement consultant.

**XI. VENTURE CAPITAL INVESTMENT PHILOSOPHY/OBJECTIVES**

A. Venture Capital Investment Guidelines

The responsibility for venture capital investment selections shall lie with the venture capital managers.

Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which cover three areas: (1) diversification/quality, (2) restrictions and (3) exemptions to restrictions.

1. Diversification/Quality

The investment in venture capital shall only be in limited partnerships.

2. Restrictions

- a. No private placements.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCEPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
  - 4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1 and 2, in writing, to the Bismarck City Employee Pension Plan Board of Trustees' for its consideration.

B. Venture Capital Performance Objectives

The objectives for the venture capital investments are to achieve an average total investment return which will:

- 1. Exceed the annual rate of inflation by ten (10) percentage points;
- 2. Exceed the return provided by the Brinson Partners Venture Asset Index.

## **APPENDIX A**

Cash Equivalents	1%
Domestic Equities	44-46%
International Equities	3%
Domestic Fixed Income	44-46%
International Fixed Income	2%
Real Estate	3%
Venture Capital	1%

## APPENDIX A

Revision of Appendix A to Attachment A, "Statement of Investment Goals, Objectives and Policies for the Bismarck City Employee Pension Plan", of the Investment Management Agreement

Approved by the Trustees of the Bismarck City Employee Pension Plan on February 5, 1998 and accepted by the North Dakota State Investment Board on February 27, 1998.

ASSET CLASS	ASSET ALLOCATION (%)
Large Cap Domestic Equity	34.3
Small Cap Domestic Equity	10.7
International Equity	3.0
Emerging Markets Equity	1.5
Domestic Fixed Income	40.0
High Yield Fixed Income	3.5
International Fixed Income	2.0
Real Estate	3.0
Venture Capital	1.0
Cash Equivalents	1.0

**Attachemnt A**

**Adopted by Bismarck City  
April 2, 1990**

**Adopted by the NDSIB  
August 31, 1990**

**STATEMENT OF INVESTMENT GOALS, OBJECTIVES  
AND POLICIES  
FOR THE  
BISMARCK CITY POLICE PENSION PLAN**

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## **I. INTRODUCTION**

The Bismarck, North Dakota City Police Pension Plan (BCPPP) administrates the pension benefit plan established for the city of Bismarck Police. The plan is administered by the Bismarck City Police Pension Plan Board of Trustees'. The plan is a defined benefit pension plan maintained to provide retirement benefits, disability benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-08 of the city of Bismarck Code of Ordinance (1986 revised). The plan is administered in accordance with IRS and Treasury Regulations.

The plan and benefits provided are funded by contributions from the members and members employer. The plan was established to provide benefits to members eligible to receive them in accordance with the provisions of the plan.

## **II. INVESTMENT GOAL**

The goal of the BCPMP is to provide income through various investments and members and members employer contributions, sufficient to pay benefits accrued and to provide for future benefit enhancements.

## **III. PURPOSE OF THIS STATEMENT**

The purpose of this statement is to set forth the investment goals and objectives for the BCPMP. The goals and objectives are to be used by the Bismarck City Police Pension Plan Board of Trustees', North Dakota State Investment Board (NDSIB) and money managers for the investment of the BCPMP's assets.

## **IV. PRUDENT INVESTOR RULE AND EXCLUSIVE BENEFIT PROVISION**

The BCPMP's assets must be invested in compliance with the "Prudent Investor Rule." The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of

funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the BCPPP must be invested exclusively for the benefit of their members and beneficiaries in accordance with the Fund's investment goals and objectives.

**V. RESPONSIBILITY OF THE BISMARCK CITY POLICE PENSION PLAN BOARD OF TRUSTEES'**

- A. The Bismarck City Police Pension Plan Board Of Trustees' has the responsibility for establishing the investment goals and objectives which are the guide to the investment of BCPPP's assets. The Bismarck City Police Pension Plan Board of Trustees' determines the investment policies by considering the implications of a wide range of financial assumptions and investment risk.
- B. The Bismarck City Police Pension Plan Board of Trustees' shall review these investment goals, objectives and policies at least annually.
- C. The Bismarck City Police Pension Plan Board of Trustees' has the responsibility to approve exemptions to these Investment Goals and Objectives.
- D. The Bismarck City Police Pension Plan Board of Trustees' has the responsibility for the development of an Asset Allocation Plan.
- E. The Bismarck City Police Pension Plan Board of Trustees' shall receive and review reports from the NDSIB's Director of Investments quarterly.

**VI. RESPONSIBILITIES OF THE NORTH DAKOTA STATE INVESTMENT BOARD**

- A. Final authority for hiring, retaining and releasing the money managers, as recommended by the Director of Investments, shall rest with the NDSIB.
- B. The NDSIB is responsible to the Bismarck City Police Pension Plan Board of Trustees' for carrying out the Bismarck City Police Pension Plan Board of Trustees' Investment Goals, Objectives and Policies.
- C. The NDSIB is responsible to the Bismarck City Police Pension Plan Board of Trustees' for carrying out the Bismarck City Police Pension Plan Board of Trustees' Asset Allocation Plan.

- D. The NDSIB must maintain a separate accounting for the BCPPP fund under their authority.
- E. The NDSIB will provide the Bismarck City Police Pension Plan Board of Trustees with quarterly investment reports.

## **VII. STATEMENT OF TOTAL FUND INVESTMENT PHILOSOPHY/OBJECTIVES**

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. It is in the best interest of BCPPP and beneficiaries that objectives be established for the total fund and performance standards set for each money manager. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies. These performance objectives are as follows:

### **A. Total Fund Objectives**

1. The long term objective of the Fund is to achieve a minimum rate of return of 4.5% in excess of the annual rate of inflation. However, the return shall be no less than the 7.25% return the actuary has determined is required to pay future benefits.
2. Achieve a long term performance, consistent within acceptable risk parameters, which rank above the thirty-fifth (35th) percentile of a data base composed of other managed funds as measured by the NDSIB's investment measurement consultant.

- B. The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the Bismarck City Police Pension Plan Board of Trustees'. See Appendix A.

## **VIII. FIXED INCOME INVESTMENT PHILOSOPHY/OBJECTIVES**

### **A. Domestic Fixed Income Investments Guidelines**

The responsibility for domestic fixed income securities or investment selection will lie with the domestic fixed

than 10% of the market value of the portfolio, or its equivalent representation in the Shearson Lehman American Express Government/Corporate Bond Index or the Shearson Lehman American Express Aggregate Bond Index.

- b. No single industry group shall constitute more than 25% of the market value of the portfolio, or its comparable representation in the previously identified index, whichever is larger.
- c. Futures and options may be used to hedge a portfolio but not to speculate. Permitted contracts are: Treasury Futures; Money Market Futures; Treasury Options; or Money Market Options.

## 2. Quality

- a. Commercial paper investment must be rated P-1 and/or A-1 by Moody's and Standard and Poor's respectively.
- b. The minimum credit rating for a straight bond will be Baa rating by Moody's and BBB by Standard & Poor's. On a dollar weighted basis, the quality rating of the bond portfolio must be an "A" or better.
- c. The minimum credit rating for a convertible bond will be Baa by Moody's and BB by Standard & Poor's.
- d. Financial institutions issuing Certificates of Deposit (CD's) and appearing on the Comptroller of the Currency's watch list are unacceptable.
- e. Any security downgraded below its approved quality level must be disposed of in an orderly market manner and in the best interest of the Fund.

## 3. Restrictions

- a. Conflicts of interest and transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I, ERISA, are prohibited.

- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. No funds shall be borrowed.
- d. No short sales or margin purchases shall be made.
- e. No tax exempt bonds shall be purchased or retained unless, on a comparable quality basis, it provides a return superior to that of a taxable bond.
- f. No private placements shall be purchased.
- g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCPPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
  - 4. The safeguards and diversity that a prudent investor would adhere to are present.

#### 4. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1, 2 and 3, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

#### B. Domestic Fixed Income Performance Objectives

The objectives for the domestic fixed income investments are to achieve an average total investment return which will:

- 1. Exceed the annual rate of inflation by 2.5 percentage points.
- 2. Exceed the theoretical return which is provided by

4. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1, 2 and 3, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

B. Domestic Fixed Income Performance Objectives

The objectives for the domestic fixed income investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by 2.5 percentage points.
2. Exceed the theoretical return which is provided by the Shearson Lehman American Express Government/Corporate Bond Index or the Shearson Lehman American Express Aggregate Bond Index.
3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.
4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for money managers shall be a market cycle as measured by the NDSIB's investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind a market average, or the performance of a group of money managers of similar style, then the relationship with the money manager will be closely scrutinized.

C. International Fixed Income Investment Guidelines

The responsibility for international fixed income securities or investment selection will lie with the international fixed income managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which cover three areas: (1) diversification/quality; (2) restrictions; and (3) exemptions to restrictions.

1. Diversification/Quality

- a. International fixed income investments are limited to those countries and securities utilized in the Salomon Brothers Non-U.S. Bond Index or the Salomon Brothers World Bond Index.
- b. Currency Forward contracts may be used to hedge a portfolio, but not to speculate.

2. Restrictions

- a. Conflicts of interest in transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I ERISA, are prohibited.
- b. No transactions which may threaten the tax exempt status of the retirement fund.
- c. No funds shall be borrowed.
- d. No short sales or margin purchases shall be made.
- e. No tax exempt bonds shall be purchased or retained unless, on a comparable quality basis, it provides a return superior to that of a taxable bond.
- f. No private placements shall be purchased.
- g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCPPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.

4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1 and 2, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

- D. International Fixed Income Performance Objectives

The objectives for the international fixed income investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by 3.5 percentage points.
2. Exceed that theoretical return which is provided by the Salomon Brothers Non-U.S. Bond Index or the Salomon Brothers World Bond Index.
3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.
4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for the money managers shall be a market cycle as measured by the NDSIB's investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind a market average, or the performance of a group of money managers with similar style, the relationship with the money manager will be closely scrutinized.

## **IX. EQUITY INVESTMENT PHILOSOPHY/OBJECTIVES**

- A. Domestic Equity Investment Guidelines

The responsibility for domestic equity investment selection shall lie with the domestic equity money managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA



and other applicable governmental regulations and which will cover four areas: (1) diversification, (2) quality, (3) restricted transactions and (4) exemptions.

1. Diversification

- a. Equity investments in any one company shall be limited to no more than ten percent (10%) of the total fund assets under the money manager's supervision and no more than ten percent (10%) of the company's outstanding equity.
- b. No stock shall be bought unless it is traded on one of the major stock exchanges or the over-the-counter markets. Over-the-counter securities shall represent no more than ten percent (10%) of the fund assets managed by the money manager.
- c. S&P 500 futures and options may be utilized to hedge a portfolio, but not to speculate.

2. Quality

- a. Convertible and non-convertible preferred stock shall be rated at least "A" by Moody's and Standard and Poor's.

3. Restrictions

- a. Conflicts of interest and transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I, ERISA, are prohibited.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. No letter stock shall be purchased.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.
- f. If in any calendar quarter the turnover of equity investments exceeds thirty percent (30%) of the equity market value, the money manager will promptly submit to the NDSIB a

detailed explanation of the trading activity.  
(For this purpose turnover shall be calculated as the ratio of the proceeds of equity sales to the market value of equities at the start of the quarter.)

g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is prohibited by BCPBP Board Resolutions. That rule is met if the following four conditions are satisfied:

1. The cost does not exceed the fair market value at the time of the purchase.
2. The investment provides a fair return commensurate with the prevailing rate.
3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

4. Exemptions to Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1, 2, and 3, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

B. Domestic Equity Performance Objectives

The objectives for the domestic equity investment portfolio are to achieve an average total investment return (cash income in combination with market value change) which will:

1. Exceed the annual rate of inflation by six (6) percentage points;
2. Exceed the return provided by the Standard & Poor's Composite Index;
3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.

4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for the money managers shall be a market cycle as measured by the NDSIB's investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind a market average, or the performance of a group of money managers with similar style, the relationship with the money manager will be closely scrutinized.

C. International Equity Investment Guidelines

The responsibility for international equity securities or investment selection shall lie with the international equity money managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and will cover three areas: (1) diversification/quality, (2) restricted transactions and (3) exemptions.

1. Diversification/Quality

- a. The international equity fund is limited to those countries and securities in the Morgan Stanley CIEAFE Index Fund.
- b. Currency Forward contracts may be used to hedge a portfolio, but not to speculate.

2. Restrictions

- a. Conflicts of interest in transactions between a fiduciary and parties in interest, as applicable to private pension plans under Sections 406 and 408 of Title I, ERISA, are prohibited.
- b. No transactions shall be made which threaten the tax exempt status of the retirement fund.
- c. No letter stock shall be borrowed.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

- f. If in any calendar quarter the turnover in equity investments exceeds thirty percent (30%) of the equity market value, the money manager will promptly submit to the NDSIB a detailed explanation of the trading activity. (For this purpose, turnover shall be calculated as the ratio of the proceeds equity sale to the market value of equities at the start of the quarter.)
- g. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCPPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  - 1. The cost does not exceed the fair market value at the time of the purchase.
  - 2. The investment provides a fair return commensurate with the prevailing rate.
  - 3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
  - 4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exceptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1 and 2, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

D. International Equity Performance Objectives

The objectives for the international equity investment portfolio are to achieve an average total investment return which will:

- 1. Exceed the annual rate of inflation by seven (7) percentage points;
- 2. Exceed the return provided by the Morgan Stanley CIEAFE Index.

3. Each money manager is expected to perform in the top thirty-fifth (35th) percentile, of a group of money managers of similar style, as measured by the NDSIB's investment measurement consultant.
4. Money managers retained to manage an index fund portfolio must perform equal to the comparable index after which the portfolio is structured.
5. Generally, the measurement time period for money managers shall be a market cycle as measured by the NDSIB investment measurement consultant. However, if a money manager's organization changes and/or performance falls significantly behind the market averages, or the performance of a group of money managers with similar style, then the relationship with that money manager will be closely scrutinized.

**X. REAL ESTATE INVESTMENT PHILOSOPHY/OBJECTIVES**

**A. Real Estate Investment Guidelines**

The responsibility for real estate investment selection shall lie with the real estate managers. Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which will cover three areas: (1) diversification, (2) restricted transactions and (3) exemptions.

**1. Diversification**

The investment in Real Estate shall be in an open-ended or closed-ended Real Estate Equity Fund.

**2. Restrictions**

- a. No private placements.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCPPP Board Resolutions. That rule is met if the following four conditions are satisfied:

1. The cost does not exceed the fair market value at the time of the purchase.
2. The investment provides a fair return commensurate with the prevailing rate.
3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to Sections 1 and 2, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

B. Real Estate Performance Objectives

The objectives for the real estate investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by 3.5 percentage points.
2. Exceed the median return of a Real Estate Data base as measured by the NDSIB's investment measurement consultant.

**XI. VENTURE CAPITAL INVESTMENT PHILOSOPHY/OBJECTIVES**

A. Venture Capital Investment Guidelines

The responsibility for venture capital investment selections shall lie with the venture capital managers.

Those managers, however, will operate within investment guidelines which will conform to the ERISA and other applicable governmental regulations and which cover three areas: (1) diversification/quality, (2) restrictions and (3) exemptions to restrictions.

1. Diversification/Quality

The investment in venture capital shall only be in limited partnerships.

2. Restrictions

- a. No private placements.
- b. No transaction shall be made which threatens the tax exempt status of the retirement fund.
- c. Social and/or Economic Targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule and is not prohibited by BCPPP Board Resolutions. That rule is met if the following four conditions are satisfied:
  1. The cost does not exceed the fair market value at the time of the purchase.
  2. The investment provides a fair return commensurate with the prevailing rate.
  3. Sufficient liquidity is maintained to permit distributions in accordance with the terms of the plan.
  4. The safeguards and diversity that a prudent investor would adhere to are present.

3. Exemptions To Restrictions

The NDSIB may request prior approval for exemptions to the restrictions outlined in Sections 1 and 2, in writing, to the Bismarck City Police Pension Plan Board of Trustees' for its consideration.

B. Venture Capital Performance Objectives

The objectives for the venture capital investments are to achieve an average total investment return which will:

1. Exceed the annual rate of inflation by ten (10) percentage points;
2. Exceed the return provided by the Brinson Partners Venture Asset Index.

## **APPENDIX A**

Cash Equivalents	1%
Domestic Equities	44-46%
International Equities	3%
Domestic Fixed Income	44-46%
International Fixed Income	2%
Real Estate	3%
Venture Capital	1%



## APPENDIX A

Revision of Appendix A to Attachment A, "Statement of Investment Goals, Objectives and Policies for the Bismarck City Police Pension Plan", of the Investment Management Agreement

Approved by the Trustees of the Bismarck City Police Pension Plan on February 5, 1998  
and accepted by the North Dakota State Investment Board on February 27, 1998.

ASSET CLASS	ASSET ALLOCATION (%)
Large Cap Domestic Equity	34.3
Small Cap Domestic Equity	10.7
International Equity	5.5
Emerging Markets Equity	2.0
Domestic Fixed Income	30.0
High Yield Fixed Income	5.0
International Fixed Income	4.5
Real Estate	5.0
Venture Capital	3.0
Cash Equivalents	0.0

## CITY OF FARGO – FARGODOME PERMANENT FUND

### INVESTMENT POLICY STATEMENT

#### 1. FUND CHARACTERISTICS AND CONSTRAINTS.

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). The initial amount in the fund is approximately \$2.8 million with additional deposits of \$1 million per year until 2009. No withdrawals are expected to be made until after 2009 when the sales tax revenue is discontinued.

#### 2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

#### 3. INVESTMENT OBJECTIVES.

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 20% Russell 1000 domestic stock index, 12% Russell 2000 domestic small cap index, 18% First Boston Convertible Securities index, 49% Lehman Government/Corporate domestic bond index, and 1% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the Fund is established by the *City of Fargo Finance Committee*, with input from RIO staff. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	23 %
Small Cap Domestic Equity	17 %
Convertible Bonds	10 %
Fixed Income	49 %
Cash Equivalents	1 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.


#### 6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**CITY OF FARGO**

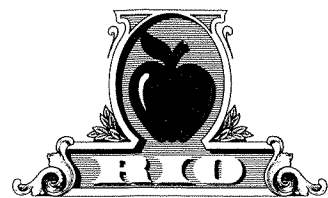
  
\_\_\_\_\_  
**Kent Costin**  
**Director of Finance**

Date: 9/26/02

**STATE INVESTMENT BOARD**

  
\_\_\_\_\_  
**Steve Cochran**  
**Executive Director/Investment Director, RIO**

Date: 10-1-02



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.discovernd.com/rio](http://www.discovernd.com/rio)

## Memo

**To:** Kent Costin, FargoDome Fund  
**From:** Connie Flanagan *cf*  
**Date:** March 2, 2004  
**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed *Kent Costin - Director of Finance*  
Date *3/4/04*

**RECEIVED**

**MAR 05 2004**

**NDRIO**



RECEIVED

MAR 08 2005

NDRIO

## Finance Office

P.O. Box 2083  
200 3rd Street North  
Fargo, North Dakota 58107-2083  
Phone: 701-241-1333  
Fax: 701-241-1526

March 7, 2005

Steve Cochrane  
Executive Director  
1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100

Dear Steve,

Thank you for calling last week regarding the FargoDome Capital Escrow Fund. I presented a request to our Finance Committee to eliminate the 10% asset allocation to the convertible class of assets. Our decision is to increase the equity exposure by 10% so that our new overall asset allocation is 50% equity and 50% fixed income.

- ★ Please make this adjustment as soon as possible upon receipt of this letter. For the time being, you can allocate the 10% increase in the equities into the same equity managers currently utilized on a proportionate basis.

If you have any questions or concerns about this request, please call me directly at 701-241-8158.

Sincerely,

Kent Costin  
Director of Finance

★ Used 60% large cap / 40% small cap split.  
cf



## **NORTH DAKOTA STATE FIRE & TORNADO FUND**

### **INVESTMENT POLICY STATEMENT**

#### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The State Fire and Tomado Fund (the Fund) was established in 1919 to insure the various state industries and political subdivisions against direct physical loss to public buildings, fixtures, and permanent contents due to the perils named in 26.1-22-02 of the North Dakota Century Code (NDCC). All state buildings and universities must be covered by the Fund. School districts and counties may participate at their option.

Funding is primarily provided by annual premiums charged to policy holders in accordance with NDCC 26.1-22. Premiums are expected to total approximately \$3.7 million annually, with the bulk of these premiums received at the beginning of each fiscal year.

Effective August 1993, the state's boiler inspection program was placed under the direction of the Insurance Department. The costs of this program are appropriated from the Fund. Fees collected for boiler inspections and licensing will be the primary source of funding for the program. The 1995 Legislature added anhydrous ammonia storage facilities to the Fund's inspection responsibilities.

A minimum balance of \$12.0 million must be maintained at all times. If reserves drop below this statutory minimum, additional premiums, as specified under NDCC 26.1-22, would be assessed. This situation must be avoided.

The Fund retains liability for the first \$2 million on each and every loss. Any loss over this amount, up to a maximum of \$100 million, is covered by reinsurance through a commercial reinsurance carrier. Reinsurance coverage is re-bid by the Insurance Department every two years.

Claims paid from the Fund are highly unpredictable. Weather damage accounts for the majority of claims. Fires generally result in the most extensive damage.

Generally, there is a 30-day lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last four fiscal years have averaged \$4.3 million annually.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage facility inspections, State Fire Marshall's Office, and State Firemen's Association. For planning purposes over the 2003-2005 biennium, these appropriations were assumed to be \$707,288 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

## **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

## **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Funds policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.



Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of \$12,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston Convertible Securities index, 50% Lehman Government/Corporate domestic bond index, and 10% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the State Fire & Tornado Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	15 %
Small Cap Domestic Equity	5 %
Convertible Bonds	10 %
International Equity	10 %
Fixed Income	50 %
Cash Equivalents	10 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.


**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

INSURANCE DEPARTMENT

  
\_\_\_\_\_  
Jim Poolman  
Commissioner of Insurance

Date:

6/24/03

STATE INVESTMENT BOARD

  
\_\_\_\_\_  
Steve Cochran  
Executive Director/Investment Director, RIO

Date: 6-27-03



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

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Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.discovernd.com/rio](http://www.discovernd.com/rio)

## Memo

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MAR 05 2004

NDRIO

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MAR - 2 2004

Commissioner of Insurance  
State of North Dakota

**To:** Ken Rood, Insurance Dept Funds  
**From:** Connie Flanagan *CF*  
**Date:** March 2, 2004  
**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed

Date

*Ken Rood*  
3/4/04

# **NORTH DAKOTA HEALTH CARE TRUST FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

Through the passage of House Bill 1196, the 2001 North Dakota Legislature created a special fund, in the state treasury, known as the North Dakota Health Care Trust Fund. The fund consists of revenue received from government nursing facilities for remittance to the fund under section 50-24.4-30. Section 13 of House Bill 1196 provides that the state investment board shall invest moneys in the fund in accordance with chapter 21-10, and the income earned must be deposited in the North Dakota Health Care Trust Fund. All moneys deposited in the trust fund are available to the department of human services for payment as authorized by legislative appropriations and for transfer to the long-term care facility loan fund as authorized by legislative appropriation.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #2: Investment income is needed to provide stability for the fund. This will be achieved through investment in certificates of deposit and cash equivalents.

#### **4. POLICY AND GUIDELINES.**

The asset allocation of the North Dakota Health Care Trust Fund is established by the SIB, with input from the North Dakota Department of Human Services. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Cash Equivalents and CD's	100%
---------------------------	------

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

**5. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**ND DEPARTMENT OF HUMAN SERVICES**



**Carol K Olson  
Executive Director**

**Date:** 4/28/03

**STATE INVESTMENT BOARD**



**Steve Cochrane  
Executive Director/CIO, RIO**

**Date:** 4-25-03

# **NORTH DAKOTA INSURANCE REGULATORY TRUST FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The Insurance Regulatory Trust Fund (the Fund) was established for use by the Insurance Department to defray the expenses incurred in discharging its duties as described in NDCC 26.1.

Funding is provided primarily through the collection of fees and fines as specified in NDCC 26.1-01-07.1. Fees and other collections are expected to total approximately \$3.5 million annually, with the bulk of this income received in the second half of each fiscal year. Earnings from investments are also considered a funding source.

There is no statutory minimum balance for this fund. However, the Insurance Department relies entirely on the Fund to meet all operating expenses. Therefore, sufficient liquidity and risk control must be maintained at all times to ensure the solvency of the Insurance Department.

In accordance with NDCC 26.1-01-07.1 any cash balance in the Fund after all current biennium expenditures are met must be carried forward for the succeeding biennium. However, when the balance at the end of the biennium exceeds \$1.0 million, any excess will be transferred to the general fund in the state treasury. Such transfers are generally made at the end of September or during the first two weeks of October.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2003-2005 biennium, these appropriations were assumed to be \$2.7 million annually.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

The SIB is charged by law under NDCC 21.10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide

specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The increasing need to augment fee income as growth in expenses outpaces traditional funding sources is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations. Cash equivalent investments will be used to achieve this objective.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston Convertible Securities index, 30% Lehman Government/Corporate domestic bond index, and 35% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.



## 5. POLICY AND GUIDELINES.

The asset allocation of the state Insurance Regulatory Trust Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of *projected liquidity and income requirements*, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	10 %
Small Cap Domestic Equity	5 %
Convertible Bonds	10 %
International Equity	10 %
Fixed Income	30 %
Cash Equivalents	35 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.

e. No short sales or margin purchases shall be made.

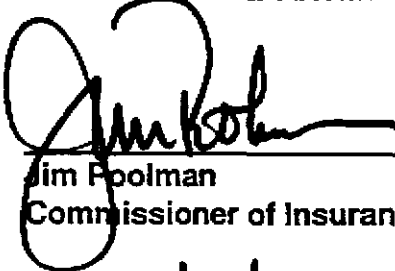
**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers hired by the SIB will be evaluated by the Board quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

**INSURANCE DEPARTMENT**

  
Jim Poolman  
Commissioner of Insurance

Date: 6/24/03

**STATE INVESTMENT BOARD**

  
Steve Cochran  
Executive Director/Investment Director, RIO

Date: 6-27-03



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.discovernd.com/rio](http://www.discovernd.com/rio)

## Memo

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Commissioner of Insurance  
State of North Dakota

**To:** Ken Rood, Insurance Dept Funds  
**From:** Connie Flanagan *CF*  
**Date:** March 2, 2004  
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These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed

Date

*Ken Rood*  
3/4/04

# **RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA**

## **INVESTMENT POLICY STATEMENT**

### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.**

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. The most recent Plan actuarial valuation, July 1, 2001, shows 85 active participants, 5 inactive vested participants and 76 pensioners and beneficiaries. There are also 129 pensioners receiving payments from annuities purchased with the Travelers Insurance Company. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The Executive Director of North Dakota Public Employees Retirement System is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Currently the Plan is fully funded and does not have an employer normal cost. Job Service North Dakota as the employer contributes 4% of the active participants salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

The Plan has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8%.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The Plan has entered into a contract for investment services with the SIB. The assets are to be invested in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probably safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Plan's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Revised 8/2003

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index (CPI), by 3.0 percent per year (based on current actuarial assumptions of 8% return and 5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plans' surplus.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Plan's assets shall be invested in asset classes as indicated in Section 5 of this investment policy statement. For evaluation purposes, the following performance targets will apply to each appropriate asset class:

Domestic Large Cap Equity -- S&P 500 Stock Index  
Domestic Small Cap Equity -- Russell 2000 Stock Index  
International Equity -- MSCI 50% Hedged EAFE Stock Index  
Domestic Fixed Income -- Lehman Bros. Aggregate Bond Index  
International Fixed Income -- Salomon Bros. World Government Non-US Bond Index

### **5. POLICY AND GUIDELINES.**

The Plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. Asset allocation is based upon the asset/liability study completed by Buck Consultants in May 2002. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Large Cap Equity -- 30%  
Domestic Small Cap Equity -- 5%  
International Equity -- 5%  
Domestic Fixed Income -- 55%  
International Fixed Income -- 5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that the undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

## 6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Plan Administrator periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

--Changes in asset class portfolio structures, tactical approaches and market values;

--All material legal or legislative proceedings affecting the SIB. All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the Plan Administrator at such frequency, as he/she deems appropriate. Any material changes will be reported to the SIB in writing.

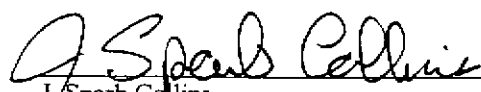
## 7. TRANSITION.

As a result of the change from prior asset allocations to the new asset allocations indicated in Section 5 above, a transition is required. The following table sets out the timing of reallocation:

Asset Class	Current	8/1/02	11/1/02	2/1/03	5/1/03	8/1/03
Domestic Large Cap Equity	35%	34%	33%	32%	31%	30%
Domestic Small Cap Equity	10%	9%	8%	7%	6%	5%
International Equity	5%	5%	5%	5%	5%	5%
Domestic Fixed Income	50%	51%	52%	53%	54%	55%
International Fixed Income	0%	1%	2%	3%	4%	5%

Assets will be transferred as required at each of the dates above, resulting in the ultimate asset allocation at August 1, 2003.

Date 8/12/03

  
 J. Sparb Collins  
 Executive Director  
 North Dakota Public Employees Retirement System

Date 8-12-03

  
 Steve Cochran, CFA  
 Executive Director  
 North Dakota Retirement & Investment Office

Revised 8/2003

## **NORTH DAKOTA ASSOCIATION OF COUNTIES**

### **INVESTMENT POLICY STATEMENT**

#### **1. INTRODUCTION.**

The North Dakota Association of Counties (NDACo) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided thereunder are funded by dues from member counties and special programs and projects of the NDACo.

#### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

#### **3. INVESTMENT OBJECTIVES.**

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

#### 4. STANDARDS OF INVESTMENT PERFORMANCE.

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 20% S&P 500 domestic stock index, 10% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 45% Lehman Brothers Government/Corporate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

#### 5. POLICY AND GUIDELINES.

The asset allocation is established by the SIB, with input from the NDACo. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

<u>Asset Class</u>	<u>Target Allocation</u>
Large Cap Domestic Equity	20%
Small Cap Domestic Equity	10%
Convertible Bonds	10%
International Equity	10%
Fixed Income	45%
Cash Equivalents	<u>5%</u>
Total	100%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.



While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

#### **6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**NDACo**



**Mark Johnson**  
Executive Director, NDACo

**Date: December 7, 1998**

**STATE INVESTMENT BOARD**



**Scott Engmann**  
Executive Director, RIO

**Date: December 7, 1998**



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.discovernd.com/rio](http://www.discovernd.com/rio)

## Memo

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MAR 04 2004

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ND 48000  
MAR 03 2004  
6:22 PM

**To:** Genny Dienstmann, NDACo  
**From:** Connie Flanagan *cf*  
**Date:** March 2, 2004  
**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

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These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed

Date

*Genny Dienstmann*  
3-3-04

Adopted by NDPERS Board September 18, 2003

Accepted by SIB Board September 19, 2003

**STATEMENT OF  
INVESTMENT GOALS, OBJECTIVES AND POLICIES  
FOR THE  
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**I. INVESTMENT GOALS**

The investment goals of the Fund have been established by the Public Employees Retirement Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies.

- |         |  |
|---------|--|
| Goal #1 | Accumulate sufficient wealth through a diversified portfolio of investments which must enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.                                   |
| Goal #2 | Obtain investment returns in excess of that needed to allow for future retirement benefit increases to provide career employees with a retirement income, which when augmented by Social Security, must approximate 90% of final average salary. |
| Goal #3 | To obtain investment returns in excess of that needed to allow for the disability retirement benefit increase which will approximate 35-45% of final average salary.   |
| Goal #4 | To obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their benefit.   |

**II. DELEGATION OF AUTHORITY**

Management responsibility for the investment program not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
  - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
  - b. Derivatives use will be monitored to ensure that risks are not taken by the money managers.
  - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).
4. Criteria for making decisions with respect to hiring, keeping, and terminating money managers. This also includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the SIB. All participants in the investment process must seek to act responsibly as custodians of the public trust.

### **III. INVESTMENT OBJECTIVE**

Investments of the North Dakota Public Employees Retirement System (NDPERS) must seek to generate sufficient return to meet the goals outlined in this policy so that the State of North Dakota is not obligated to increase the current statutory contribution rate. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- A. The long term investment objective of the Fund is to achieve a minimum total real rate of return of 6% in excess of the annual rate of inflation. However the absolute total rate of return must be no less than 10.5% net of fees.
- B. The portfolio mix must be in accordance with the asset allocation adopted and as specified herein.

#### **IV. ASSET ALLOCATION**

In recognition of the plan's objectives, benefit projections, and capital market expectations, the following is the asset allocation for NDPERS:

Domestic Equities - Large Cap	30%
Domestic Equities – Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
<b>Expected Return</b>	<b>10.5%</b>
<b>Standard Deviation of Returns</b>	<b>11.5%</b>

---

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives of the funds participating in the pools.

## V. RESTRICTIONS

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. No transaction shall be made which threatens the tax exempt status of the Fund.
- C. No unhedged short sales or speculative margin purchases shall be made.
- D. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- E. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
  - (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
  - (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
  - (4) The safeguards and diversity that a prudent investor would adhere to are present.
- F. REITs may not be used in the Real Estate asset allocation.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## **VI. INTERNAL CONTROLS**

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## **VII. EVALUATION**

Investment management of the Fund must be evaluated against the Fund's investment objectives and investment performance standards. Emphasis must be placed on three and five year results. Evaluation will include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports must be provided to the Public Employees Retirement Board quarterly. Such reports must include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with those investment goals, objectives and policies.

Upon implementation of this policy and the above asset allocation, the SIB must meet with the Public Employee Retirement Board. The purpose of the meeting is to review the procedures and policies established by the SIB relating to the Section II - Delegation of Authority. Also, the meeting must review the application of this policy to the funds established by the SIB. After the implementation meeting the SIB and the Public Employee Retirement Board must meet at least annually and conduct a similar review. The annual meeting must also include a review of the progress of the Fund and its asset allocation strategy.

TABLE I  
Summary of Actuarial Characteristics \*

<i>Funded Position</i>	<i>Amount</i>
<i>Actuarial accrued liability.....</i>	\$842,717,700
<i>Actuarial value of assets.....</i>	916,953,277
<i>Market Value of Assets.....</i>	1,105,445,266
<i>Unfunded actuarial accrued liability (surplus) as of 7/1/99 .....</i>	(74,235,577)
<i>Funded ratio .....</i>	108.8%
<i>Actuarial interest rate assumption</i>	8.0%
<i>Demographics</i>	<i>Amount</i>
<i>Number of Active Participants.....</i>	16,334
<i>Number of Retirees and Beneficiaries.....</i>	4,114
<i>Number of Inactives.....</i>	2,560
<i>Total Membership.....</i>	23,008
<i>Average Age for Actives (years).....</i>	44.5
<i>Average Service for Actives (years).....</i>	9.6
<i>Average Pay.....</i>	\$24,345
<i>Average Member Deduction (percent) .....</i>	4.23%

\* Based on The Segal Company valuation as of July 1, 1999.



TABLE 7A  
Return/Risk Assumptions and Indices

<i>Asset Class</i>	<i>Annual Return</i>	<i>Risk</i>	<i>Index</i>
<i>Dom. Large Cap.</i>	10.25%	14.75%	Russell 1000
<i>Dom. Small Cap.</i>	11.75	17.00	Russell 2000
<i>Int'l. Equity</i>	11.25	19.00	MSCI EAFE (unhedged)
<i>Emg. Mkt. Equity</i>	16.00	35.00	MSCI Emg. Mkts. Free (unhedged)
<i>Dom. Fixed Income</i>	6.75	8.00	LB Aggregate
<i>High Yield Bond</i>	8.75	10.00	ML High Yield
<i>Int'l. Fixed Income</i>	9.00	11.00	SB World Gov't Bond Non US\$ (unhedged)
<i>Real Estate</i>	9.25	9.00	Frank Russell NCREIF
<i>Private Equity</i>	18.00	28.00	NA
<i>Cash</i>	5.00	2.00	SB 3 Mo T-Bill

TABLE 7B  
Correlation Coefficients

<i>Asset Class</i>	<i>Dom. Large Cap.</i>	<i>Dom. Small Cap.</i>	<i>Int'l. Equity</i>	<i>Emg. Mkt. Equity</i>	<i>Dom. Fixed Income</i>	<i>High Yield Bond</i>	<i>Int'l. Fixed Income</i>	<i>Real Estate</i>	<i>Private Equity</i>	<i>Cash</i>
<i>Dom. Large Cap.</i>	1.00									
<i>Dom. Small Cap.</i>	0.81	1.00								
<i>Int'l. Equity</i>	0.74	0.56	1.00							
<i>Emg. Mkt. Equity</i>	0.21	0.54	0.55	1.00						
<i>Dom. Fixed Income</i>	0.28	0.13	0.10	0.20	1.00					
<i>High Yield Bond</i>	0.56	0.72	0.30	0.42	0.31	1.00				
<i>Int'l. Fixed Income</i>	0.50	(0.12)	0.48	0.43	0.54	0.68	1.00			
<i>Real Estate</i>	0.17	(0.11)	0.00	0.10	(0.08)	(0.20)	0.20	1.00		
<i>Private Equity</i>	0.58	0.50	0.40	0.50	0.03	0.20	0.00	0.29	1.00	
<i>Cash</i>	0.09	(0.06)	(0.01)	0.09	0.22	(0.26)	0.10	0.37	(0.24)	1.00

## **NDPERS GROUP INSURANCE ACCOUNT**

### **INVESTMENT POLICY STATEMENT**

#### **1. INTRODUCTION**

The NDPERS Group Insurance Account was established to hold insurance premiums collected from employers until paid to the insurance carrier.

#### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

#### **3. INVESTMENT OBJECTIVES**

Premiums are collected throughout the month at PERS and will be forwarded to the Group Insurance investment account on the 1<sup>st</sup> and 15<sup>th</sup> of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22<sup>nd</sup> of each month so they may be remitted to the insurance carrier.

4. **STANDARDS OF INVESTMENT PERFORMANCE**

The Fund’s investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

5. **POLICY AND GUIDELINES**

The asset allocation is established by NDPERS. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, the following allocation is deemed appropriate for the fund:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board’s master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

**6. EVALUATION AND REVIEW**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**


**NDPERS**



**Sparb Collins**  
**Executive Director**

**Date:**

**STATE INVESTMENT BOARD**



**Steve Cochrane**  
**Executive Director/CIO**

**Date:**

## **PERS PREFUNDED RETIREE HEALTH BENEFITS TRUST FUND**

### **INVESTMENT POLICY STATEMENT**

#### **1. *FUND CHARACTERISTICS AND CONSTRAINTS.***

The Prefunded Retiree Health Benefits Trust Fund was established in 1989 for the purpose of prefunding and providing hospital benefits coverage and medical benefits coverage in accordance with Chapter 54-52.1 of the North Dakota Century Code.

The Plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium. Monthly benefits are calculated as: Number of Year of Service x \$4.50. Eligible members are those PERS, Judges, Air Guard, and Highway Patrol retirees who are participating in the Uniform Group Health Insurance program. As of June 30, 1994, an estimated 2,636 retirees are eligible for the program with 2,105 participating currently.

Funding is provided by a monthly employer contribution of one percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment. Benefits of \$2,051,606 in fiscal year ending 1994 were netted against contributions totaling \$3,087,206 producing net positive cash flow of \$1,035,600. Benefit payouts are expected to increase at the rate of 5% per year for the next 10 years, while contributions are expected to grow at 5%. Net positive cash flow into the fund is expected for the next 20 years.

As of the June 30, 1994, actuarial evaluation date, the fund's unfunded liability stood at \$33,895,600, with assets totaling \$8,099,500 and a funding ratio of 19.3%. The unfunded liability is amortized over a 40-year period, with 36 years remaining. The actuary assumes a 7.5% rate of return on assets.

#### **2. *RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).***

Under NDCC 21-10-06, the SIB may provide investment services for non-statutory funds on a contract basis. NDCC 21-10-07 requires that the assets of the Fund be invested in accordance with the prudent investor rule.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selection of performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as it is prudent to do.

### **3. *INVESTMENT OBJECTIVES.***

The investment objectives of the Fund reflect the long time horizon, funding constraint, small asset base, and need for capital growth. Operating considerations shape the Fund's policies and priorities as follows:

Objective #1: Obtain a favorable return on invested assets through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Provide for growth of capital by emphasizing equity exposure in the Fund's asset allocation.

Objective #3: Minimize investment costs and risk of under performing the stock and bond markets through investment in S&P 500 stock index and Lehman Aggregate bond index funds.

Objective #4: Maintain as closely as possible an asset allocation of 60% domestic equities and 40% domestic fixed income.

### **4. *STANDARDS OF INVESTMENT PERFORMANCE.***

The Fund's investment objectives and characteristics give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 60% S&P 500 Stock Index and 40% Lehman Brothers Aggregate Bond Index.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

## **5. *POLICY AND GUIDELINES.***

The asset allocation of the PERS Prefunded Retiree Health Benefits Fund is established by the PERS Board, with input from money managers and the RIO staff. Asset allocation is based upon the appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of the Fund's objectives, needs, and capital market expectations, the following asset allocation is deemed appropriate for the Fund:

Domestic Equities	60%
Domestic Fixed Income	40%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. The prudent investor rule will apply.
- b. Futures and options may be used to hedge, but not for speculation.
- c. The investment performance target of the equity allocation is the S&P 500 Stock Index return.
- d. The investment performance target of the fixed income allocation is the Lehman Aggregate Bond Index return.
- e. All assets will be custodied by the SIB's master custodian or such other custodians as are acceptable to the SIB.

## **6. *EVALUATION AND REVIEW.***

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted as deemed appropriate by the SIB but at least annually.

Money managers hired by the SIB will be monitored by the SIB at least quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

PERS Board

Spaul Collier  
By:

9/15/95  
Date:

Accepted by State Investment Board:

Paul Egan  
By:

10-4-95  
Date:

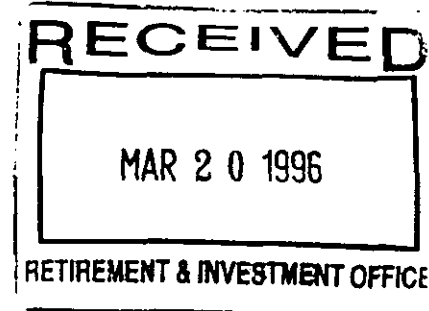




**North Dakota**  
**Public Employees Retirement System**  
400 East Broadway, Suite 505 • Box 1214  
Bismarck, North Dakota 58502

Sparb Collins  
Executive Director  
(701) 328-3900  
1-800-803-7377

## MEMORANDUM



**TO:** Scott Engman  
Executive Director, RIO

**FROM:** Sparb *[Signature]*

**DATE:** March 18, 1996

**SUBJECT:** Retiree Health Insurance Credit Program

I am writing to you concerning the recent action of the PERS Board relating to the Retiree Health Insurance Credit program (formerly the Prefunded Retiree Health program). The Board heard a presentation from Karen Kellerman and reviewed a report that she prepared concerning the asset allocation for that program. They adopted her recommendation that the new asset allocation should be composed of the following index fund:

**EQUITIES:**

S&P 500	38%
US Small Cap:	10%
EFAE:	<u>12%</u>
<b>Total Equities:</b>	<b>60%</b>

**FIXED INCOME:**

L B Aggregate:	40%
----------------	-----

As you will note, the above changes diversify that fund into small cap and international investments that we do not presently have.

If you have any questions concerning the above, please feel free to give me a call.



**North Dakota**  
**Public Employees Retirement System**  
400 East Broadway, Suite 505 • Box 1214  
Bismarck, North Dakota 58502

**RECEIVED**

**JUL 31 2000**

**NDRIO**

Sparb Collins  
Executive Director  
(701) 328-3900  
1-800-803-7377  
FAX: (701) 328-3920

July 27, 2000

Steve Cochrane  
Executive Director  
Retirement & Investment Office  
P O Box 7100  
Bismarck, ND 58507-7100

Accepted by  
SIB on  
July 21, 2000  
cf

Dear Steve:

I am writing concerning the revised asset allocation for the Retiree Health program. The PERS Board recently completed its asset allocation study concerning this program and is requesting implementation of the following:

Domestic Large Cap	35%
Domestic Small Cap	15%
International Equities	15%
Domestic Fixed Income	35%

You will note that the revised asset allocation increases the total equity exposure for this program from 60% to 65%. The expected portfolio return is 9.4% with a portfolio risk of 10.6.

If I can be of any assistance or answer any questions concerning the above, please give me a call.

Sincerely,

Sparb Collins

- 
- |                                    |                       |                                   |
|------------------------------------|-----------------------|-----------------------------------|
| • FlexComp Program                 | • Retirement Programs | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees    | • Deferred Compensation Program   |
| • Dental/Vision Program            | - Highway Patrol      | • Long Term Care Program          |
|                                    | - National Guard      |                                   |
|                                    | - Judges              |                                   |
|                                    | - Prior Service       |                                   |

# **NORTH DAKOTA PETROLEUM TANK RELEASE COMPENSATION FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The Petroleum Tank Release Compensation Fund (the Fund) was established in 1989 in response to the Environmental Protection Agency's (EPA) requirement that all underground storage tank owners have proof of financial responsibility. Operation of the Fund is in accordance with the 1991 Session Laws, Chapter 299. The Fund's "sunset clause" date of June 30, 1999 has been extended and the time horizon for this Fund is uncertain at this time.

Funding is provided by annual premiums collected for aboveground and subterranean petroleum storage tanks. Registration of tanks with the Fund is mandatory, although certain types of tanks are excluded. Premiums are estimated to total \$321,000 annually during the current biennium.

A minimum balance of \$2 million must be maintained in the Fund in order to assure EPA approval. In the event reserves drop below this minimum, EPA would evaluate the Fund's ability to pay claims and would in all likelihood disapprove the Fund as a financial responsibility mechanism for North Dakota petroleum tank owners.

The Fund provides up to \$1 million of coverage for on-site clean-up and third party liability caused by petroleum contamination. There is a \$5,000 deductible with a 90/10 owner co-payment. The maximum payment from the Fund for a claim is \$980,000. Claims have averaged \$300,601 annually over the last four fiscal years.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2003-2005 biennium, these appropriations were assumed to be \$40,000 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The SIB is charged by Chapter 285 of the 1993 Session Laws with establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect the need to augment premium income to provide for claim payments and stability of insurance reserves. Operating considerations shape the Fund's policies and priorities as follows:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #4: The risk of violating the EPA mandated minimum balance requirement of \$2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 10% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston Convertible Securities index, 45% Lehman Government/Corporate domestic bond index, and 15% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

## **5. POLICY GUIDELINES.**

The asset allocation of the state Petroleum Tank Release Compensation Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	10 %
Small Cap Domestic Equity	10 %
Convertible Bonds	10 %
International Equity	10 %
Fixed Income	45 %
Cash Equivalents	15 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

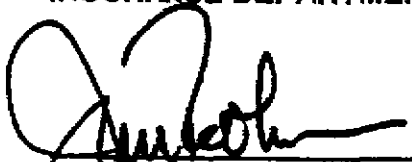
**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers hired by the SIB will be evaluated by the Board quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

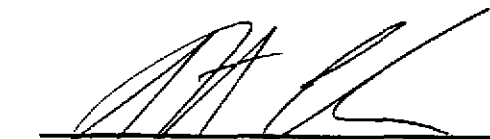
**INSURANCE DEPARTMENT**



Jim Poolman  
Commissioner of Insurance

Date: 6/24/03

**STATE INVESTMENT BOARD**



Steve Cochrane  
Executive Director/Investment Director

Date: 6-27-03



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.discovernd.com/rio](http://www.discovernd.com/rio)

## Memo

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MAR 05 2004

NDRIO

RECEIVED

MAR - 2 2004

Commissioner of Insurance  
State of North Dakota

**To:** Ken Rood, Insurance Dept Funds  
**From:** Connie Flanagan *CF*  
**Date:** March 2, 2004  
**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed

Date

*Ken Rood*  
3/4/04

# **NORTH DAKOTA RISK MANAGEMENT FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS. –**

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the Century Code, N.D.C.C. ch. 32-12.2. That Chapter established the Risk Management Fund (Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget.

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another.

The amount of money damages the Fund may pay is limited for State court actions to a total of \$250,000 per person and \$1,000,000 per occurrence. These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to \$10,000,000 for those exposures not covered by the Tort Claims Act.

In addition to the excess coverage, the Fund purchases medical malpractice liability coverage. Due to the insurance market conditions, the cost of this coverage for fiscal year 2003 increased from an average cost of approximately \$925,000 per year to \$1,149,950.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for death, the notice must be provided within 1 year after the alleged injury resulting in the death. Total incurred (paid claims and claim expenses plus reserves) since the inception of the Fund (April 22, 1995) is \$4,647,591, an average of \$663,942 a year.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred. Those expenses have averaged \$283,371 per year since the Fund's inception.



The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

## **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

## **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 18% S&P 500 domestic stock index, 6% Russell 2000 domestic small cap index, 11% First Boston Convertible Securities index, 60% Lehman Government/Corporate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the North Dakota Risk Management Fund is established by the SIB, with input from the Office of Management and Budget. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	18%
Small Cap Domestic Equity	6%
Convertible Bonds	11%
Fixed Income	60%
Cash Equivalents	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**OFFICE OF MANAGEMENT AND BUDGET**



**Pam Sharp**  
**Director of OMB**

**Date:** 9-12-03

**STATE INVESTMENT BOARD**



**Steve Cochran**  
**Executive Director/Investment Director, RIO**

**Date:** 9-19-03

# **ND RISK MANAGEMENT WORKERS COMPENSATION PROGRAM FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS. –**

The 2001 North Dakota Legislature established a single workers' compensation account for state entities, N.D.C.C. § 65-04-03.1. N.D.C.C. § 65-04-03.1(2) directs that workers' compensation premiums from state entities must be deposited in the Risk Management Workers' Compensation Fund and the State Investment Board is directed to invest the Fund in accordance with chapter 21-10.

The Risk Management Division of the Office of Management and Budget is responsible for administering the Fund to include promulgating rules, collecting and dispersing funds, and establishing an internal workers' compensation return-to-work program. Each entity of the State is required to participate in the program unless exempted by the director of the Office of Management and Budget. Contributions to the Fund are determined by the Workforce Safety & Insurance (WSI) based on an actuarial review of combined payroll, premium, and loss history of agencies to determine experience rates, assessments, and premiums.

The Risk Management Workers' Compensation Program charges the entity the first \$250 (\$150 if a designated medical provider is used for treatment) of each accepted claim and pays disability and medical benefits of up to \$100,000 dollars per claim. Dollar amounts for claims in excess of \$100,000 are paid for by WSI. In turn the Program pays WSI approximately \$1,720,000 per year in premium.

Claims paid from the Fund average \$84,089 per month and operating expenses approximate \$6,000 per month.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 20% S&P 500 domestic stock index, 10% Russell 2000 domestic small cap index, 15% First Boston Convertible Securities index, 52% Lehman Government/Corporate domestic bond index, and 3% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

### **5. POLICY AND GUIDELINES.**

The asset allocation of the North Dakota Risk Management Fund is established by the SIB, with input from the Office of Management and Budget. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	20 %
Small Cap Domestic Equity	10 %
Convertible Bonds	15 %
Fixed Income	52 %
Cash Equivalents	3 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

## **6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

OFFICE OF MANAGEMENT AND BUDGET



Pam Sharp  
Director of OMB

Date: 9-12-03

STATE INVESTMENT BOARD



Steve Cochrane  
Executive Director/Investment Director, RIO

Date: 9-19-03

## **NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT**

### **INVESTMENT POLICY STATEMENT**

#### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.**

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five members appointed by the Governor of North Dakota and two elected officials, the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, as the case may be, in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of Service X 2.0% X One-thirty-sixth of the Sum of Three Highest Annual Salaries. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee contributions of 7.75% of payroll and matching employer contributions. On an annual basis, benefit payouts exceed contributions. The asset/liability study completed in June 2000 indicates that a 2% cash equivalents allocation is expected to provide sufficient liquidity for the next 10 years.

The TFFR Board has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics as of the most recent valuation are recorded in the Asset/Liability Model presented in June 2000 by Watson Wyatt Worldwide and on file at the North Dakota Retirement and Investment Office.

#### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.



The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the plan have been established by the TFFR board upon consideration of the board's strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: Accumulate sufficient wealth through a diversified portfolio of investments and employer and employee contributions to pay all current and future benefit and expense obligations when due.

Objective #2: Build a funding cushion to provide for future benefit improvements by emphasizing higher return/higher risk assets in the fund's asset allocation.

Objective #3: Improve, or at least maintain, the funded ratio without requiring future increases in employee or employer contribution rates.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The plan's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 30% S&P 500 Stock Index, 10% Russell 2000, 20% MSCI EAFE, 5% Emerging Markets (MSCI Emerging Markets Free Index), 5% Post Venture Capital Index, 7% Lehman Aggregate Bond Index, 7% High Yield (Lehman Brothers High Yield Bond Index), 5% Citigroup Non-US Government Bond Index, 2% 90-day T-bills, 9% NCREIF Index.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 9.29% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 11.17%.

## 5. POLICY AND GUIDELINES

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Watson Wyatt Worldwide and Wyatt Investment Consulting in June 2000. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the plan's objectives, projected financial status, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Equities - Large Cap	30%
Domestic Equities - Small Cap	10%
International Equities	20%
Emerging Markets Equities	5%
Venture Capital/Alt. Invsts.	5%
Domestic Fixed Income	7%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	2%
Real Estate	9%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic

benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## **6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All material legal or legislative proceedings affecting the SIB.

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the TFFR Board at such frequency as that board deems appropriate. Any material changes will be reported to the SIB in writing.

# Asset Assumptions

## Expected Return and Volatility Assumptions

	Arithmetic Average Return	Compound Average Return	Standard Deviation
Large Cap Stocks	10.1%	9.0%	16.0%
Mid Cap Stocks	10.5%	9.1%	18.0%
Small Cap Stocks	11.0%	9.1%	21.0%
International Equity	10.1%	8.6%	18.0%
Real Estate (Direct)	7.5%	7.0%	10.0%
Alternative Investments (General)	14.0%	10.2%	30.0%
Emerging Markets	14.0%	9.0%	35.0%
US Fixed Income	7.1%	6.9%	6.1%
International Fixed Income (Hedged)	6.5%	6.4%	4.6%
International Fixed Income (Unhedged)	6.7%	6.1%	11.0%
High Yield Bonds	9.6%	8.9%	12.4%
Cash Equivalents	5.1%	5.0%	2.5%
Inflation	2.5%	2.5%	2.9%



OFFICE OF THE ADJUTANT GENERAL  
STATE OF NORTH DAKOTA

PO Box 5511  
Bismarck, North Dakota 58506-5511

**Attachment A**

**VETERANS CEMETERY FUND  
INVESTMENT POLICY STATEMENT**

**1. INTRODUCTION**

On August 1, 1997, the State Investment Board (SIB) became responsible for the administrative oversight of the Veterans Cemetery Trust Fund (the Fund), a pool meant to benefit the resting ground of North Dakota veterans. The funding of the pool is derived through the sale of commemorative license plates and private donations.

**2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

**3. INVESTMENT OBJECTIVES**

Investment income is needed to provide for the payment of future expenses of the Veterans Cemetery while protecting the principal. This will be achieved through investment in cash equivalents.

#### 4. STANDARDS OF INVESTMENT PERFORMANCE

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

#### 5. POLICY AND GUIDELINES

The asset allocation is established by The ND Adjutant General's Office with input from the Retirement and Investment Office staff. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, the following allocation is deemed appropriate for the fund:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.

e. No short sales or margin purchases shall be made.

## 6. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

ND ADJUTANT GENERAL'S  
OFFICE

A large, stylized handwritten signature in black ink, appearing to be "M. P. Sel", is written over a horizontal line.

Date: 6/23/03

STATE INVESTMENT BOARD

A handwritten signature in black ink, appearing to be "Steve Cochrane", is written over a horizontal line.  
Steve Cochrane  
Executive Director/CIO

Date: 6-26-03

# **NORTH DAKOTA VETERAN'S POSTWAR TRUST FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS**

The Veteran's Postwar Trust Fund (Fund) was established for the benefit of and service to veterans as defined in North Dakota Century Code (NDCC) 37-01-40 or their dependents as determined and appropriated by the Legislative Assembly. The funding source for the Fund is investment income.

A minimum balance of \$4,104,848.55 must be maintained at all times. This amount is the principal that must be retained for the total fund. Expenditures from the Fund are met through investment income. Approximately 75% of the total fund has been invested with the State Investment Board. This document pertains only to that 75%.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The State Treasurer is charged by law under North Dakota Century Code 37-14-14 with the responsibility of investing the assets of the Fund. The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

### **3. INVESTMENT OBJECTIVES**

The investment objectives of the Fund reflect the long-term nature of the Fund, as well as recognize the shorter-term liquidity needs. Operating and statutory consideration shape the policies and priorities outlined below:



Objective #1: Investment income is needed to provide stability of the Fund. This will be achieved through a diversified portfolio of high quality equity and fixed income assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The portfolio policy index will consist of S&P 500 domestic stock index (large cap domestic equity); Russell 2000 stock index (small cap domestic equity); EAFE 50% Hedged Index (International Equity) and Lehman US TIPS Index (TIPS). Actual calculations of the policy index will vary as described in the asset allocation below.
- b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

#### **5. POLICY AND GUIDELINES**

The asset allocation of the Trust Fund is established by the State Treasurer, with input from the Veterans Administrative Committee. Asset allocation is based upon the appraisal of current liquidity and income needs and estimates of the investment returns likely to be achieved by the various asset classes over the next 5 years.

In recognition of the Fund's objectives, needs, and market expectations, the following allocation is deemed appropriate for the Fund:

A minimum balance of \$2,000,000 will be maintained in Treasury Inflation-Protected Securities (TIPS) with the balance of the Fund being allocated as follows:

Large Cap Domestic Equities	47%
Small Cap Domestic Equities	23%
International Equities	30%

Because of the dollar balance requirement in the TIPS allocation, rebalancing of the Fund to this target will be done every six months (approximately June and December) based on cash flow needs at that time.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

  
\_\_\_\_\_  
KATHI GILMORE, STATE TREASURER

05/26/04  
DATE

  
\_\_\_\_\_  
STEVE COCHRANE, CFA  
EXECUTIVE DIRECTOR/CIO  
NDRIO

6/18/04  
DATE

# Workers Compensation Bureau

500 East Front Avenue  
Bismarck, North Dakota 58504-5685

Pat Traynor  
Executive Director & CEO



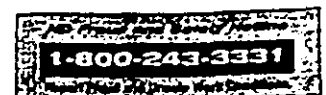
## North Dakota Workers Compensation Bureau Statement of Investment Policy

Revised December 1998

### *"A Team Effort"*

**WCB HelpLine**  
1-800-777-5033  
Local: 701-328-3800  
Questions? Call us. Report injuries immediately.

Office: 701-328-3800 TDD: 701-328-3786 (hearing impaired only)  
Claims/Legal: 701-328-3801 Claims/Legal Fax: 701-328-3820  
Policyholder Services: 701-328-3811 Policyholder Fax: 701-328-3750  
Loss Prevention: 701-328-3886  
Workers' Adviser Program: 701-328-3796 or 1-800-701-4932



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## 1. INTRODUCTION

The North Dakota Workers Compensation Bureau (NDWCB) is an exclusive state workers' compensation fund which exists for the mutual benefit of North Dakota employers and employees. The assets of the Bureau are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires the Workers Compensation Bureau to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the Bureau,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

## 2. PURPOSE OF THIS STATEMENT

The purpose of this statement is to set forth the investment goals and objectives for the NDWCB. The goals and objectives are to be used by the North Dakota State Investment Board (NDSIB) for the investment of the NDWCB assets.

## 3. DELEGATION OF RESPONSIBILITIES

### *RESPONSIBILITIES OF THE NORTH DAKOTA WORKERS COMPENSATION BUREAU AND ITS BOARD OF DIRECTORS*

- The NDWCB has the responsibility for establishing the investment goals and objectives which are the guide to the investment of NDWCB's assets.
- The NDWCB shall review these investment goals and objectives, at least annually.
- The NDWCB shall develop the asset allocation plan for NDWCB's assets.
- The NDWCB shall utilize the assistance of experienced independent investment professionals in developing the asset allocation plan.

### *RESPONSIBILITIES OF THE NORTH DAKOTA STATE INVESTMENT BOARD*

- Final authority for hiring, retaining, and releasing the investment managers shall rest with the NDSIB.
- The NDSIB is responsible to the NDWCB for carrying out the NDWCB's Investment Goals and Objectives.

- The NDSIB must maintain a separate accounting for the NDWCB under its authority.

#### 4. ASSET ALLOCATION POLICY

The asset allocation policy developed herein is based on an evaluation of the NDWCB's ability and willingness to assume investment risk in light of NDWCB's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in November 1998, the following asset allocation is deemed appropriate for the NDWCB. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by the NDWCB.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	
Large Cap Equity	12%
Small Cap Equity	6%
Convertibles	12%
International Equity	8%
Fixed Income	59%
Cash Equivalents	3%
<i>Total</i>	<i>100%</i>

The operating and liquidity needs of the Bureau are generally to be met by the Cash Equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in large capitalization equity, small capitalization equity, international equity, convertible and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

#### 5. TOTAL FUND INVESTMENT GOALS AND OBJECTIVES

The investment goal of the NDWCB is to supplement premiums, through various investments, to accomplish its statutory obligations as outlined in Section 1. It is expected that the assets earn at least a 4.0% real rate of return during periods longer than one market cycle.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. The NDWCB expects to receive results from the State Investment Board that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the

investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

### **Restricted Transactions**

While the State Investment board is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No transaction shall be made which threatens the tax exempt status of the Fund.
- e. No funds shall be borrowed.
- f. No short sales or margin purchases shall be made.
- g. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- h. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document, social investing is defined as "The investment or commitment of insurance trust money for the purpose of obtaining an effect other than a maximized return consistent with Fund objectives."

For the purpose of this document, economically targeted investment is defined as "an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy."

Also for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.

- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions as required.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

#### Exemptions to Restrictions

The NDSIB may request exemptions from the investment guidelines, in writing, to the NDWCB for its consideration for specific transactions.

#### Total Fund Performance Objectives

The performance objectives for the Total Fund are as follows:

Horizon	Universe	Index	Inflation
Less than one market cycle (approx. 1-3 years).	Rank in upper half of a broad universe of managers. <sup>1</sup>	Exceed the return of the Reference Index benchmark, net of fees. <sup>2</sup>	
One Market cycle (approx. 3-5 years).	Rank in upper half of a broad universe of managers. <sup>1</sup>	Exceed the return of the Reference Index benchmark, net of fees. <sup>2</sup>	
Over one market cycle (over 5 years).			Provide a 4.0% premium over the rate of inflation (as measured by the Consumer Price Index), annualized.

<sup>1</sup> As measured by a universe of managers composed as follows: 12% large cap equity, 6% small cap equity, 12% convertible, 8% international equity, 59% fixed income and 3% cash equivalent. See addendum for specific universe definition.

<sup>2</sup> The Reference Index benchmark is composed as follows: 12% S&P 500/6% Russell 2000/12% First Boston Convertible Index/8% EAFE Index/59% Lehman Brothers Aggregate/3% 91-day T-Bills.

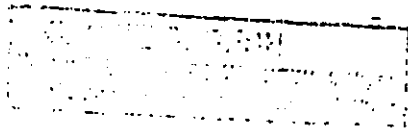


J. Patrick Traynor  
J. Patrick Traynor  
Executive Director & CEO  
North Dakota Workers Compensation Bureau

2/1/99  
Date

STATE OF NORTH DAKOTA     )  
  ) ss.  
COUNTY OF BURLEIGH     )

On this 1<sup>st</sup> day of ~~January~~<sup>February</sup>, 1999, before me personally appeared J. Patrick Traynor, Executive Director & CEO of the North Dakota Workers Compensation Bureau, known to me to be the person who is described in and who executed the within instrument and acknowledged to me that he executed the same.



Cassie Buresh  
Notary Public

APPROVED BY THE WORKERS COMPENSATION BOARD OF DIRECTORS  
ON DECEMBER 16, 1999.

ACCEPTED BY THE STATE INVESTMENT BOARD  
ON JANUARY 22, 1999.

**WORKFORCE SAFETY & INSURANCE  
AMENDMENTS TO INVESTMENT GUIDELINES STATEMENT**

Upon approval, this document will amend the existing Investment Guidelines of the Workforce Safety & Insurance (WSI) Fund as follows:

1. The asset allocation will be changed to reflect the mix adopted by the WSI Board.
2. Section 5a will be amended as follows:
  - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
3. Section 5f will be amended as follows:
  - f. No unhedged short sales or speculative margin purchases shall be made.

I, on behalf of the Board of Directors, authorize the above amendments to the Workforce Safety & Insurance Investment Guidelines.

  
\_\_\_\_\_  
Bob Indvik, Chair, WSI Board of Directors

Date 3-4-04

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WORKERS COMP EXEC.

TEL: 701 328 3770

P. 002

**WORKFORCE SAFETY & INSURANCE  
AMENDMENTS TO INVESTMENT ALLOCATION POLICY**

On March 4, 2004, the Workforce Safety & Insurance Board of Directors, by unanimous ballot, approved the following allocation for its investment portfolio:

Broad Domestic Equity	16%
Small Cap	5.3%
Large Cap	10.7%
International Equity	5%
Real Estate	6%
Domestic Fixed Income	66%
Lehman Aggregate Bonds	22%
Intermediate Bonds	22%
TIPS	22%
Convertible Bonds	6%
Cash Equivalents	1%
	100%

I, on behalf of the Board of Directors, authorize the above amendments to the Workforce Safety & Insurance Investment Guidelines.

  
Bob Indvik, Chair, WSI Board of Directors

Date 3-11-04

## H. BY-LAWS

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## **CHAPTER 1 - AUTHORITY**

Section 1-1. The State Investment Board (SIB) has the authority to maintain an administrative office under Chapter 54-52.5, North Dakota Century Code.

Section 1-2. The SIB has the authority and responsibility for providing administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board. This includes organizing, staffing, and maintaining an administrative office.

Section 1-3. The SIB has the authority and responsibility for developing and monitoring the agency budget.

Section 1-4. The SIB has the authority and responsibility to maintain office records, an accounting system, and data processing support services.

Section 1-5. The SIB has the authority to pay all claims and investment expenses filed with TFFR and the SIB.

**Policy Implemented:** June 23, 1995.

## **CHAPTER 2 - BOARD**

Section 2-1. Members of the SIB are the Governor, State Treasurer, Commissioner of University and School Lands, Director of Workers Compensation, Commissioner of Insurance, three members of the TFFR Board, and three of the elected members of the Public Employees Retirement System (PERS) Board as selected by the PERS Board. The PERS and TFFR Boards may appoint an alternate designee with full voting privileges to attend meetings of the SIB when a selected member is unable to attend.

Section 2-2. The SIB will have general charge and management of the business of TFFR and the SIB, subject to law, administrative rules and regulations, and governance policies. The SIB will make such policy as necessary to fulfill this obligation.

Section 2-3. When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individual(s) will then have the right to vote on matters before the SIB.

Section 2-4. The SIB will be responsible for the operation of an administrative office that will provide support services to TFFR and the SIB.

**Policy Implemented:** June 23, 1995.

### **CHAPTER 3 - OFFICERS AND DUTIES**

Section 3-1. The officers of the SIB are a Chair and Vice Chair, one of which must be an appointed or elected member of the TFFR or PERS Board. The officers will be elected by the SIB to a one-year term at the first regularly scheduled meeting following July 1 of each year. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy.

Section 3-2. Chair. The Chair will preside at all meetings of the SIB.

Section 3-3. Vice Chair. In the absence of the Chair, the Vice Chair will perform the duties of the Chair.

Section 3-4. Executive Director. An Executive Director will be retained by the SIB. The Executive Director will serve at the SIB's pleasure, be responsible for keeping the records of the SIB and TFFR Board actions, and perform such duties as the SIB prescribes. The Executive Director will make out and give out all notices required to be given by law, procedures, or rules and regulations of the two boards.

**Policy Implemented:** June 23, 1995.

## **CHAPTER 4 - MEETINGS**

Section 4-1. Regular meetings of the SIB to conduct business are to be held as often as necessary. The SIB will meet at least once each quarter. Notice of all meetings will be made in accordance with North Dakota Century Code, Section 44-04-20.

Section 4-2. Special meetings of the SIB may be called by the Chair, Investment Officer, or two members of the SIB upon reasonable notice in writing to the other members of the Board. (NDCC 21-10-04)

Section 4-3. A quorum will be six (6) members of the SIB.

Section 4-4. Voting on matters before the SIB will be contained in the minutes which will show the recorded vote of each SIB member.

Section 4-5. All meetings of the SIB are open to the public.

Section 4-6. A record of procedures will be kept by the Executive Director on all meetings of the SIB. The records of these proceedings are public documents, and copies will be distributed to the TFFR, SIB, and PERS Boards and upon request.

Section 4-7. Public participation during meetings of the SIB may be allowed at the discretion of the Chair.

Section 4-8. SIB members, except elected and appointed officials, will be paid the amount members of the Legislative Council receive per SIB meeting attended.

Expenses will be paid according to state law and OMB policies.

**Policy Implemented:** June 23, 1995.



## **CHAPTER 5 - COMMITTEES**

Section 5-1. The SIB will establish one standing committee:  
Audit Committee.

5-1-1. Audit Committee. The Audit Committee will consist of five members. They will be selected by the SIB. Three members of the committee will represent the three groups on the SIB (TFFR Board, PERS Board, and elected and appointed officials). The other two members will be selected from outside of the SIB and be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation.

The Audit Committee will have responsibility for oversight of financial reporting, auditing, and internal control. The Audit Committee will be responsible for developing a written charter, to be approved by the SIB, that puts forth the authority, responsibilities, and structure of the Audit Committee. It will also be the responsibility of the Audit Committee to supervise the audit activities of the internal audit staff, work with the State Auditor/external auditors, and develop reports for the SIB.

The Executive Director shall supervise the administrative activities of the internal/external audit programs such as travel, securing contracts, paying fees, maintaining official reports, etc.

The supervisor of the internal audit function will be the staff member directly responsible to the Audit Committee.

Membership on the Audit Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Audit Committee.

Section 5-2. No member of the SIB will be paid, other than expenses, for attending seminars, conferences, or other such educational meetings.

**Policy Implemented:** June 23, 1995.

## **CHAPTER 6 - RULES OF ORDER**

Section 6-1. All SIB meetings will be conducted in accordance with Robert's Rules of Order Newly Revised except as superseded by these by-laws and board governance policies.

**Policy Implemented:** June 23, 1995.

## **CHAPTER 7 - ADMINISTRATIVE OFFICE**

Section 7-1. For the purpose of carrying out the day-to-day business of TFFR and the SIB, an administrative office will be maintained in Bismarck, North Dakota. This office is called the Retirement and Investment Office (RIO).

Section 7-2. The Executive Director will be the administrator of the office.

**Policy Implemented:** June 23, 1995.

## **CHAPTER 8 - AMENDMENTS**

Section 8-1. These by-laws may be amended by a two-thirds vote of SIB members. All amendments must be mailed to SIB members at least thirty (30) days prior to the meeting at which they are considered.

Section 8-2. All amendments must include an effective date.

**Policy Implemented:** June 23, 1995.

## I. CENTURY CODE

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